

FINANCIAL TIMES

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World Business Newspaper <http://www.ft.com>

WEDNESDAY JUNE 18 1997

Finnish energy group talks may herald merger

Neste, a partly-privatised Finnish oil and petrochemicals group, and Imatran Voima, the domestic state-owned power utility, are in talks with the Finnish government which could lead to a merger. A tie-up would represent one of Finland's biggest corporate deals, creating a powerful force on the Nordic energy market. The companies would have combined annual sales of Fm55.4bn (\$920m) and a market capitalisation of around Fm26bn. Page 13

Tory leadership battle nears end: The battle for leadership of the UK's opposition Conservative party moves towards a final ballot tomorrow between former chancellor Kenneth Clarke and William Hague. Supporters of beaten candidate John Redwood were last night deciding which way to vote. Page 8

French crackdown on pornography: French police arrested 345 people in a crackdown on paedophile videos. In a nationwide operation, 2,500 gardes searched the homes of 800 people whose names were on the books of a mail-order company in Maastricht which sold pornographic films.

Steffi Graf's father will go to jail



Peter Graf (left), father of tennis star Steffi Graf, is to go to jail for evading tax on his daughter's earnings after German prosecutors dropped an appeal against his sentence. Mr Graf was sentenced to three years and nine months in January but was freed pending the appeal. He has already spent 15 months on remand and will serve another 15 months in prison.

Brits bid for Italian club: Vicenza could become the first top Italian football club to fall into foreign hands if a bankruptcy court approves British investment company Stellian's £22bn (\$38m) bid for the Italian cup winners on Friday. Page 4

Lockheed unveils Russian rocket deal: Lockheed Martin has ordered 101 rocket engines to be built in Russia for use on its new Atlas rocket. Announcing the \$1bn deal, the US company said it hoped the engines would be selected for the US government's expendable rocket programme. Other Contracts, Page 4

Barney's to shut Manhattan store: Barney's, the upmarket US department store group struggling to emerge from bankruptcy, is to close 74-year-old flagship store in downtown Manhattan. It will also close three other stores in Dallas and Houston, Texas, and Troy, Michigan. Page 13

Israel agrees economic reforms: Israel's prime minister Benjamin Netanyahu has agreed to introduce sweeping reforms aimed at cutting the budget deficit, lifting foreign currency restrictions and speeding up privatisation. The measures, to be phased in next year, will liberalise foreign currency transactions, allowing institutional investors and Israeli funds to trade abroad as well as unhindered access to foreign currency accounts. Page 6; Editorial Comment Page 11

US cruise line to pay \$500m for rival: Royal Caribbean International, the second biggest US cruise line, agreed to buy Celebrity Cruise Lines, a relative newcomer to the industry, for \$500m in cash and stock. Page 12

Refugees' plight deepens: The number of refugees fleeing human rights violations has almost doubled to more than 15m over the past 10 years and their plight is deepening, Amnesty International said. "The international regime that is supposed to protect refugees is in crisis", warned the London-based human rights agency in its annual report. Page 5

Cash for Hadrian's Wall: Hadrian's Wall, one of Britain's most treasured historic monuments, is to get £1.5m (\$2.1m) from the UK's National Lottery to create an 80-mile path alongside the Roman fortification. The wall across the north of England was built by the Roman emperor in the second century AD to provide a barrier against the Scots.

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STOCK MARKET MOVES	
New York Stock Exchange	(+21.25)
Dow Jones Ind. Av.	7,783.35 (+7.52)
NASDAQ Composite	1,438.47 (+7.52)
Europe and Far East	
CAC40	2,782.80 (+3.27)
DAX	3,741.40 (+2.65)
FTSE 100	2,822.2 (-2.2)
Nikkei	20,553.50 (+7.41)
US BOND YIELDS	
3-month Treasury Bill	5.5%
10-year Treasury Note	5.52%
Long Bond	5.71%
OTHER RATES	
UK 3-month Interbank	5.5%
UK 10-year Gilt	5.52%
France 10-year OAT	5.52%
Germany 10-year Bund	5.52%
Japan 10-year JGB	5.52%
NORTH SEA OIL (Avg)	
Brent Blend	\$17.40 (17.25)

Index	Value	Index	Value
DAX	2,782.80	FTSE 100	2,822.2
NASDAQ	1,438.47	Nikkei	20,553.50
Dow Jones	7,783.35	Hang Seng	10,553.50
EURO STOXX	1,438.47	Shanghai	10,553.50
FTSE 250	1,438.47	Hong Kong	10,553.50
FTSE 100	2,822.2	London	10,553.50
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FTSE 100	2,822.2	London	10,553.50

France told not to expect automatic admission to monetary union

EU allies warn Paris on budget shortfall

By Lionel Barber
in Amsterdam and
David Buchanan in Paris

France yesterday came under fresh pressure from its European Union partners over its failure to curb a worse-than-expected public deficit this year.

One EU finance minister warned France should not expect automatic entry to monetary union on political grounds alongside Germany, Spain and Portugal, with better progress on fiscal discipline, could be the "southern" balance in the planned monetary union, he said.

The French deficit is set to reach between 3.5 per cent and 3.8 per cent of gross domestic product in 1997, according to the finance ministry projections. The 1992 Maastricht treaty sets a deficit target of 3 per cent of GDP in 1997 for countries wishing to enter economic and monetary union.

The new projections emerged as EU leaders, meeting in Amsterdam, laboured over a new treaty to prepare the Union for enlargement to central and eastern Europe.

With Germany in the forefront, other EU countries committed to Emu are pressing the leftwing government in Paris

EU tones down plans Page 2
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to clarify whether it will order fresh austerity measures to meet the Maastricht criteria. Doubts over France's commitment to Emu have risen since the Socialists swept to a surprise victory in parliamentary elections this month. Yesterday, members of the government sent conflicting signals about policy toward Emu.

Mr Pierre Moscovici,



Ciby 2000 sale

New owner sought for
award-winning films

Page 16



French president Jacques Chirac (left) and his prime minister Lionel Jospin (right) confer with an aide on the final day of the European heads of government meeting in Amsterdam. Picture: Reuters

France's European affairs minister, suggested there was nothing automatic about the government's move towards the single currency.

"We must assess the state of our public finances (by mid-July), and it will be in the light of this situation that we will decide whether or not to move to the euro," he said.

French officials distanced

the government from Mr Moscovici's comments. Mr Dominique Strauss-Kahn, France's industry and finance minister, who has called for Spain and Italy to be included with France and Germany among founding Emu members, said:

"The most important thing is to be approaching 3 per cent." Last week, Paris put on hold approval of the German-

inspired stability pact intended to enforce fiscal discipline among Emu members. EU leaders reached a compromise which left the pact intact, while offering France largely rhetorical promises to promote jobs and growth.

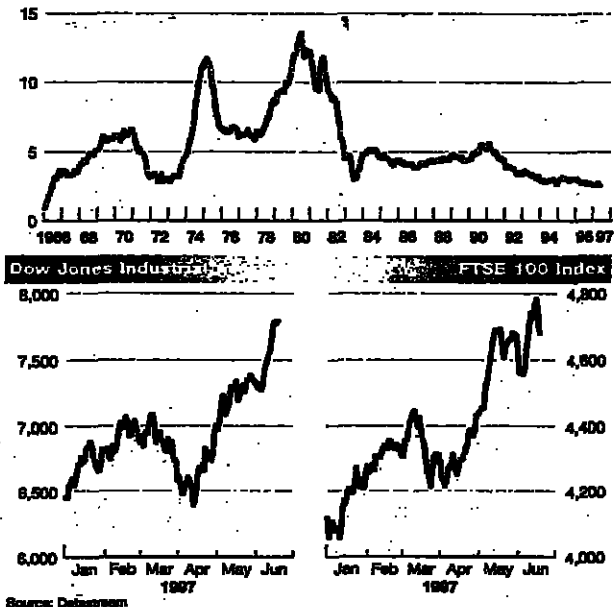
Mr Lionel Jospin, prime

Continued on Page 12

US inflation drops to a 10-year low

Inflation subdued as robust growth continues

'Core' CPI (excluding food and energy), annual % change



By Gerard Baker
in Washington

US consumer price inflation fell to its lowest annual rate in a decade last month - the latest sign the economy is still on a path of robust growth with little inflationary pressure.

The consumer price index inched up by a seasonally-adjusted 0.1 per cent in May, leaving prices 2.2 per cent higher than a year earlier, the Labour Department reported yesterday.

A sharp fall in fuel costs was the main factor behind the weakness in overall price rises. But even excluding the volatile food and energy components, the core index rose by just 0.2 per cent last month, taking price rises to an annual rate of 2.5 per cent.

Unadjusted for seasonal fluctuations, the core rate in May stood at its lowest level in 31 years. The core rate of inflation has

now been at or below 3 per cent for the last two years, a period when the US economy has been expanding at a generally healthy pace.

This combination of growth without inflation has been the main reason for a sharp rise in stock prices over that time, as investors have concluded the US has entered an era of stable non-inflationary growth.

Analysts interpreted the figures as strengthening the case for the Federal Reserve, the US central bank, to leave interest rates unchanged at the July 1-2 meeting of its policy-making open market committee.

"The US continues to enjoy

inflation-less growth," said Mr Bruce Steinberg, chief economist at Merrill Lynch, the New York investment bank. "The data reinforce the likelihood the Fed will remain on hold."

The weakness of consumer prices has been underpinned in recent months by sharp falls in producer prices. Last week, the Commerce Department reported producer prices rose by just 0.3 per cent in the year to May, suggesting inflation in the production pipeline

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Moscow snubs EU mission amid trade allegations

By John Thornhill in Moscow

A diplomatic row erupted in Moscow yesterday when Mr Boris Nemtsov, Russia's first deputy prime minister, attacked the European Union's "discriminatory" trade practices and refused to meet Sir Leon Brittan, the EU's chief trade negotiator.

Mr Nemtsov said the EU's continuing classification of Russia as a "non-market" economy bracketed it with countries such as Cuba and North Korea. The European Commission had imposed "fierce" anti-dumping procedures against 14 categories of goods including seamless pipes, magnesium, and potash fertiliser, he said.

Sir Leon, who was in Moscow to accelerate Russia's accession to the World Trade Organisation, said the allegations were a "nonsense". Anti-dumping procedures affected only 1.1 per cent of Russia's trade with the EU, he said. The average tariff on Russian goods entering the EU was 4 per cent, compared with the 19 per cent tariff Russia imposed on EU goods.

"I think it is a shame that Mr Nemtsov has not had the opportunity of putting his case to me in an honest and manly way - face-to-face rather than engaging in this boycott," Sir Leon said.

EU officials were mystified by Mr Nemtsov's decision to cancel the meeting, especially as Sir Leon was committed to clearing the way for Russia's accession to the WTO.

Mr Nemtsov, who was appointed first deputy prime minister in March, is one of Russia's most reformist ministers and has encouraged the development of international business relations.

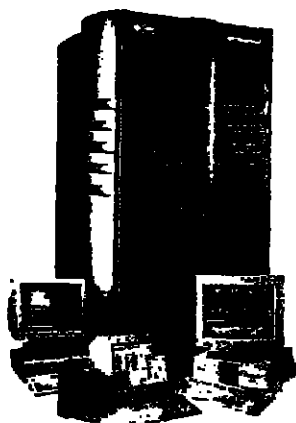
But he has an ear for the populist mood and the Russian press has recently been awash with stories about the EU's allegedly discriminatory trade regime.

During his two-day visit to Moscow, Sir Leon met several Russian officials, including Mr

Continued on Page 12

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NEWS: EUROPE

■ No to integrated WEU ■ No to top foreign affairs chief ■ Immigration veto stays

EU tones down most ambitious plans

By Emma Tucker and Lionel Barber in Amsterdam



European Union leaders slowly pieced together a new EU treaty last night, omitting the most ambitious proposals for integration and giving partial opt-outs to the UK, Ireland and Denmark.

As the summit moved to its close, it appeared the 15 leaders had watered down a French proposal for a high-profile figure to represent the EU's foreign policy, and had accepted that a national veto should remain on immigration and asylum matters.

The UK, backed by Denmark and the four neutral EU member states, deflected attempts to integrate the

Western European Union (WEU) defence organisation into the EU.

The UK and Ireland were to retain control of their national borders, while other countries were to strengthen co-operation in crime-fighting and immigration policy. The Schengen accord, linking most EU states in a border-free zone, was to be added into the treaty.

The basic challenge for the leaders at Amsterdam was to adapt the Union's structures - barely changed since the Treaty of Rome 40 years ago - to make the EU fit to expand to as many as 26 member states.

The urgency stemmed from an earlier pledge to open accession negotiations with applicant countries from central and eastern Europe six months after the conclusion of the intergovernmental conference (IGC).

The applicants include the Czech Republic, Poland, Hungary, Slo-

venia, the Baltic states, Slovakia, Bulgaria, Romania and Cyprus.

Three central issues are at stake: the size of the European Commission, the extent of majority voting, and the weighting of votes in the decision-making Council of Ministers. The smaller countries, including newcomers Finland and Sweden, had threatened to block the IGC if there was any attempt to take away their EU commissioner.

So the focus was on the balance of power in the Council of Ministers. As the Union has expanded from the original six members to today's 15, the balance of voting weights in the Council no longer reflects the distribution of population across the member states. Thus Luxembourg, with barely 450,000 people, has two votes, while post-unification Germany, with 80m inhabitants, only has ten votes. The result is that Germany's respective weight has been diluted.

This is also true for the other big members. In spite of being home to nearly 80 per cent of the EU's total population, Britain, France, Germany, Italy and Spain have only 55 per cent of the Council's votes.

When the Community had only six members, the balance of voting weights meant decisions could be taken only if countries representing 70 per cent of the bloc's population supported them. That figure has since fallen to 58.3 per cent, and could fall to 50.8 per cent with 26 members - meaning that the UK, France, Germany and Spain could actually be outvoted by all other EU states voting together.

To re-establish an equilibrium, the Dutch EU presidency tabled a three-step solution.

Until the first enlargement, the status quo will reign. If the first enlargement includes no more than five new countries, all member states will keep a commissioner,

but the large countries - France, Germany, the UK, Italy and Spain - will lose their second. At the same time there will be a reweighting of council votes, so that every member state will get more votes but, as one Dutch official put it, "the bigger member states will get more votes".

If a second enlargement occurs, or if the first enlargement includes more than five new countries, then the entire system would be subject to a wholesale review.

However, there were signs yesterday that this scenario did not satisfy some of the bigger member states, which wanted population sizes to be taken directly into account in the rebalancing of voting weights. Leaders were also examining proposals for an expansion of qualified majority voting in the council, but partly because of UK and Spanish unease the extension was to be modest.

EIB cautious over its latest jobs assignment

By Wolfgang Münchau, Economics Correspondent

Judging by the number of jobs programmes over the past 10 years, the European Union should not have an unemployment crisis. But it does.

The jobless rate has climbed from 6.4 per cent in 1980 to 10.8 per cent last January, over the same period in the US it has declined from 12 per cent to 5.3.

This has happened despite a string of EU programmes focusing mainly on the demand-side of the economy. These included targeted help for regional and transnational infrastructure projects, and specifically for small and medium-sized companies.

Now, the Amsterdam summit has produced yet another job initiative as part of a trade-off against the stability pact for the planned single currency. Like many programmes before, it will centre on the European Investment Bank, the EU's finance arm.

Mr Hans-Olaf Henkel, president of the Federation of German Industry (BDI), yesterday condemned the European Union's planned jobs chapter as superfluous and said it could be accepted only because it would have no real effect.

Mr Henkel said the jobs chapter, pushed by France, was simply the deal Bonn had to accept to ensure the stability pact was passed.

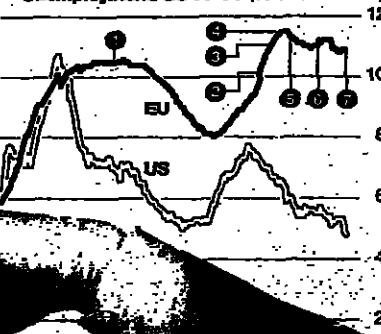
As the world's largest multilateral lender, the EIB enjoys the highest credit ratings, and can therefore help finance projects in a cost-effective way. There are, however, limits to which "off-balance sheet" financing can be pushed.

Even among bank insiders there is strong scepticism about the expectations politicians have placed in them in the fight against unemployment. This goes especially for suggestions about a possible redistribution of the EIB's profits or a stronger

Europe's in search of a programme that works

- 1. May 1996 Jacques Delors' plan for a job initiative, argues that without faster growth and lower unemployment, the consequences for social peace, for the authority of governments and for democracy.
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Unemployment: EU vs US (% of workforce)



bank involvement in venture capital operations.

As one senior official said: "Of course we have a role to play in reducing structural unemployment. But if you count 18m unemployed, there remains a large discrepancy."

The EIB has been at the centre of the EU's efforts to reduce the rate of unemployment since the early 1990s. At various summits it has been given a specific remit to step up lending to small and medium companies (SMEs) and various Euro-

pean infrastructure projects, also known as trans-European networks (TENs).

At Edinburgh in 1992 and Copenhagen the following year, the bank was given a facility of Ecu5bn (\$9bn) to lend to SMEs in combination with an EU-financed interest rate rebate of 2 per cent. The goal of this combined programme was to create 45,000 jobs. By the end of 1996, about 30,000 had been created, one of the EIB's biggest success stories in terms of job creation.

Bank officials say this is

typical of the scale on which it can help stimulate the EU jobs markets. They acknowledge, though, that there is some scope for extending the EIB's remit beyond that of lender to that of an investor.

Under current arrangements the EIB could become more active in the provision of venture capital, in collaboration with the European Investment Fund, set up in 1994 to provide loan guarantees for TENs. The Fund's shareholders are the EIB, the European Commission and commercial banks.

Critics of the process say that the EU would do better to concentrate on welfare systems and labour markets, rather than relying on stoking demand in the economy.

Professor Richard Layard, director of the Centre for Economic Performance at the London School of Economics, believes the EU can play a useful role - not in devising grand schemes, but in acting as a "transmission mechanism" that enabled positive experiences in one or more countries to be transmitted to the rest.

Pedal power puts leaders on a fast track to lunch

European leaders got on their bikes yesterday - or at least most did. Chancellor Helmut Kohl of Germany kept his feet firmly on the ground, and did not look best pleased at the gift to the summit participants. Britain's Mr Tony Blair sped to the front in the 100-metre pre-prandial pedal.

Mr Wim Kok, leading the home team, showed Dutch dexterity giving Mr Hans van den Broek, his European commissioner, a ride on the baggage rack.

As a memento of Amsterdam, the bicycle has a sensitive German-Dutch history since Nazi forces retreating at the end of the Second World War occupied used them as getaway vehicles. Dutch youths even now taunt "I want my bike back". Mr Kohl was having none of it.

Restaurant watch. For the second successive night, a small contingent of journalists found themselves having dinner at an eatery patronised by members of the Belgian

government. That nation of gastronomes has briefed itself thoroughly.

On Monday evening it was the turn of Mr Philippe Maystadt, finance minister, at restaurant Het Tuynhuys - an erudite establishment with a Québecois waitress who also chairs human rights conferences.

French President Jacques Chirac ducked human rights issues in Beijing a month ago to net some \$2bn in contracts for French companies. China had, however, just cancelled a Dutch trade visit in retaliation for The Hague's support of a critical United Nations resolution.

While in Beijing, Mr Chirac clearly developed a taste for Chinese cuisine. Across the street from Het Tuynhuys, he was spotted at Sichuan Food, prosaic of name but proud owner of a Michelin star.

Victory for Germany was the general verdict on the summit showdown between Bonn and Paris over the rules for enforcing

budgetary discipline. But it was hard to tell from Chancellor Kohl's face yesterday.

Bicycles notwithstanding, Mr Kohl has been grumpier than usual, thundering about domestic opposition to the euro rather than expounding his vision of a united Germany in a united Europe. A special target of criticism is Mr Edmund Stoiber, the conservative Bavarian leader whose CDU party is part of Mr Kohl's coalition.

Mr Stoiber has been warning Mr Kohl and Mr Theo Waigel, finance minister, they are testing the limits of ordinary Germans' patience with plans to swap the rock-solid D-Mark for an untested euro. Mr Stoiber is insisting on the strictest of entry targets for Euro. So is Mr Gerhard Schröder, the Social Democrat premier of Lower Saxony, making a bid to run against Mr Kohl in the October 1998 elections.

Gordon Cramb, Lionel Barber and Emma Tucker

Blair's line: win friends and influence results

By Robert Peston, Political Editor, in Amsterdam

Mr Tony Blair, the UK prime minister, set himself one overarching challenge for the Amsterdam summit. He wanted to demonstrate that, by taking a more constructive approach to negotiations with fellow European leaders, he could win a better deal for Britain than his predecessor, Mr John Major.

When, later today, he claims success in an address to the House of Commons, there will be some evidence to support him. First and foremost, he has secured a watertight guarantee in the new European Union treaty that the UK will retain control of its own borders and take whatever measures it sees fit to maintain their integrity.

He helped outflank attempts to set up either the Western European Union or the EU as defence organisations with the potential to rival Nato, although the notion that the EU should eventually acquire a greater role in this area has not

been completely thrown out. In foreign affairs, the UK argued successfully for individual countries to retain the right to veto any initiative, with majority voting applicable only in decisions on implementing already agreed policies.

Mr Blair also had a modest role in stemming the creation of a two-tier Europe, based on an inner and outer core of members integrating at different speeds through the use of the so-called "flexibility principle".

On fishing, negotiations with the European Commission have produced progress towards an agreement which would help the UK fishing industry without solving the fundamental problem of encroachment into UK waters of Spanish fishermen through quota-hopping.

According to UK officials in Amsterdam, the summit would probably have had a different outcome if Mr Major had been participating. "It is conceivable that Major would have precipitated a full-scale European

crisis by refusing to agree to anything," said one official. Mr Major set out to block EU agreement on a range of fronts from action against sexual discrimination, through to the incorporation into the treaty of a new employment chapter, the application of EU law to arrangements for a borderless Europe, and a raft of institutional changes necessary for the EU's enlargement.

"We were saying 'no, no, no' on almost every issue imaginable," said a senior UK official.

Mr Blair, by contrast, set himself a narrowly prescribed set of goals and was prepared to be flexible in areas of less importance to the UK.

"John Major always used such emotive phrases when addressing summits," said a senior Commission official. "We always felt he was addressing his own Euro-sceptic MPs rather than his fellow leaders." By contrast, he added, Mr Blair stated "clearly and simply what his goals are and avoids unnecessary attacks on Europe".

EUROPEAN NEWS DIGEST

'Ceasefire' in Corsica

The leading clandestine Corsican nationalist movement yesterday announced a temporary "ceasefire" in the wake of the election of France's new Socialist government. In a break with its tradition of night-time press conferences with armed, hooded militants, the FLNC - the National Front for the Liberation of Corsica - chose an interview in the local press to announce the truce.

The FLNC set none of the preconditions it has demanded in the past, including the release of a growing number of prisoners arrested during the previous year. That has led to a government's clampdown on the FLNC, which has renewed outburst of explosions for which the FLNC has claimed responsibility, including one on the town hall of Bordeaux, the mainland French city where Mr Alain Juppé, the former prime minister, is mayor. But the arrests have deprived it of many of its militants including several of its supposed leaders.

The Front also raised the possibility of independence for the island as only one of a number of ways in which its demands for greater autonomy for the Corsicans could be implemented.

Andrew Jack, Paris

Romanian miners restive

The Romanian government yesterday cancelled trains and mobilised its riot police to forestall any move by striking miners to move on the capital, Bucharest, where they staged ferocious attacks in 1990 and 1991. Sixteen trains running through the Jiu Valley north of Bucharest were cancelled, and six more diverted.

The miners are demanding a 45 per cent pay increase and guaranteed jobs, in the face of government promises to the International Monetary Fund and World Bank to shut down uneconomic state enterprises and slash the budget deficit. The government has offered a 15 per cent pay rise, and negotiations are continuing. The miners' union is reported to be ready to settle for 25 per cent. This would add around 10,000 lei (\$1,400) to the state budget.

In June 1990 and September 1991, thousands of miners from the Jiu Valley invaded Bucharest and attacked reformist opponents of the then Romanian leader, Mr Ion Iliescu, killing seven. The trade union chief Mr Miron Cosma, who led the actions, is in jail facing trial for them. Some of the miners currently on strike are demanding his release.

Anatol Lieven

EU agrees on 'spy-in-cab'

European Union transport ministers agreed yesterday to force new lorries and coaches registered from July 2000 to carry digital "spies-in-the-cab" to monitor drivers' speed and time spent behind the wheel. But ministers dropped plans to fit the new device in existing vehicles, meaning the new-style tachographs will not penetrate the EU vehicle fleet completely until the end of the next decade.

Before yesterday's meeting, Belgium, Greece, Spain, Ireland, Italy, Portugal and Sweden had blocked that option, mainly on cost grounds. But old vehicles needing replacement tachographs from July 2000 will have to fit digital devices rather than the old waxed disc design.

Reuter, Luxembourg

Russia ex-naval chief accused

Russian military prosecutors have charged the former chief of naval general staff with abusing his position. Admiral Igor Khmel'nov is accused of diverting funds meant for naval housing and development of Russia's far eastern naval base.

He and his relatives were among the recipients. It is claimed.

Admiral Khmel'nov was sacked by President Boris Yeltsin in April after a case was opened against him. He is the latest senior officer to be the target of a government crackdown on corruption.

Mr Yeltsin last month lashed out at corruption in the armed forces. Prosecutor General Yuri Skuratov said that his office was processing 18 cases against generals alone, including a deputy defence minister and the commanders and deputy commanders of the ground forces and Northern Fleet.

Reuter, Moscow

Bosnia settles debt problem

Bosnia has reached an agreement with the World Bank on servicing its debt after failing to pay an \$8m instalment on time. Mr Caio Koch-Weser, managing director of World Bank operations, said: "We expect the payment almost immediately." However, he gave no details of how the matter had been resolved.

Bosnia inherited a \$2bn share of former Yugoslavia's debt and is currently servicing a consolidated \$880m loan to the World Bank with regular six-month payments. It failed to make the \$8m payment after the country's Serb entity said it could not cover its \$3.8m share.

Mr Haris Silajdzic, Muslim co-chairman of the central cabinet, indicated on Monday that the federation was ready to lend money to the Serb entity if the international community guaranteed repayment.

Reuter, Sarajevo

Krone defence prepared

Norwegian kroner Against the D-Mark (Nkr per Dmk)

Against the D-Mark (Nkr per Dmk)

Norway's central bank signalled yesterday it was prepared to resume intervening in foreign exchange markets, reversing a decision five months ago to withdraw from exchange rate management. This followed vain attempts by the bank to hold down the value of its oil-boostered currency through a foreign currency buying spree which cost around Nkr200bn (\$2.7bn).

The krone rose from Nkr4.24 to the D-Mark to 4.188 in response to the move. The bank said future interventions would be confined to curbing short-term fluctuations in the krone's value, and would be on a limited scale. Foreign exchange market conditions are more benign now than early in the year, when a wave of speculation - driven by Norway's big budget and current account surpluses - propelled the krone sharply upwards.

Mr Laila Eide, central bank executive director, said speculators had found it more difficult than expected to buy and sell krone following the bank's withdrawal from the market. The krone has depreciated 4 per cent against the Ecu since the bank stopped intervening and has fallen 8 per cent in value against the currency since reaching a peak in early February.

Grog McIner, Stockholm

Swiss move to tighten law

Tighter Swiss laws on money laundering moved a step closer when the upper house of parliament approved legislation placing a duty on bankers to report financial transactions they suspect are tied to the illegal drugs trade or other Mafia-style criminal activity. "Up to now there was no obligation to report suspicious transactions, only a right to report," a finance ministry official said. Final passage of the law is expected shortly.

Switzerland outlawed money laundering in 1990, and in 1994 gave bankers the right to breach the country's legendary banking secrecy laws and report suspicious transactions. Under the new law, extended to all areas of the financial sector, bankers who do not report suspicious transactions can face heavy fines.

Reuter, Zurich

Pork barrel time for Fianna Fáil

Ireland's inconclusive general election has plunged the political parties into a hectic bout of courtship ahead of the reconvening of parliament on June 26.

Negotiators for Mr Bertie Ahern's Fianna Fáil party, which emerged as the largest after the election, have had a fairly easy ride agreeing policies with their putative coalition partners, the centre-right Progressive Democrats. But the party faces a more delicate task enlisting the support of independents for his nomination as prime minister.

Mr Ahern has said he will head a minority government and will not enter into "horse-trading" with any independent. Fianna Fáil has 77 seats and the PDs just four, so his alliance is three short of a overall majority in the 166-member Dáil.

Of the 10 independents, there are two Greens and a member of Sinn Féin, the IRA's political wing. Fianna Fáil should be able to count on three who are of "the Fianna Fáil

family." One is a former member who left when he was overlooked by the candidate selection committee. Another is the daughter of a former Fianna Fáil member, and a third is the brother of a former Fianna Fáil minister.

That should suffice. But Fine Gael, the former governing party, injected a new uncertainty this week by approaching Mr Des O'Malley with the offer to support him as speaker. Mr O'Malley, founder of the Progressive Democrats, has long had poor personal relations with Fianna Fáil, and friends say he might be tempted to seek the speaker's job.

If he does, thus reducing the PD strength by one, Mr Ahern could find himself having to rely on the vote of the Sinn Féin member - doubly awkward in the wake of the murder by the IRA this week of two British policemen in Northern Ireland, which Mr Ahern was quick to condemn.

A Fianna Fáil member said it was

going to be "pork barrelling all the way", referring to the deals being discussed in backrooms.

Mr Harry Blaney, another former Fianna Fáil member and now a hard-line republican independent from Donegal, has already said he will only give his support if there is a public call from Mr Ahern for British withdrawal from Northern Ireland.

Mr Jackie Healy Rae, from Kerry South, has said he wants potholes in the roads and other local issues sorted out before he will support Mr Ahern.

Another has said he will be seeking concessions for the so-called defector groups - the operators of unlicensed television transmissions of British television programmes to the west of Ireland.

Even if Mr Ahern, as seems likely, wins enough votes to become prime minister, the manoeuvres do not bode well for the durability of his government.

John Murray Brown

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Klaus says would-be European Union members are being discriminated against

Czech premier attacks EU association agreements

By Anthony Robinson and Robert Anderson in London

Mr Vaclav Klaus, the Czech prime minister, yesterday criticised the association agreements between the European Union and aspirant members such as the Czech Republic. He said they were partly to blame for rising current account deficits throughout central Europe.

Mr Klaus, whose government was recently forced to devalue the koruna and introduce two austerity packages in as many months to correct a rising current account deficit, said the agreements meant to be in favour of the former communist states actually discriminated against them. He was speaking at the London School of Economics before delivering the annual Hayek Memorial lecture.

"We need to look beneath the surface at indicators such as the size of subsidies and various export promotion schemes and non-tariff barriers in the EU countries and we see that, in reality, asymmetry favours existing members," he said.

"The empirical data,

which shows large and growing visible trade deficits with the EU, confirms this."

A recent study by Deutsche Morgan Grenfell (DMG) estimated the Czech Republic ran up a \$4.6bn trade deficit - equivalent to 8.5 per cent of GDP - last year and a \$1.8bn deficit over the first

Rising current account deficits in central European countries are partly blamed on EU

four months. This was before the April and May emergency packages which included devaluation of the koruna, cuts in government spending and a public sector wage freeze. Most of the underlying trade deficit was with EU countries.

For eastern Europe as a whole, current account deficits have widened from an average 2.4 per cent of GDP in 1995 to a forecast 5.3 per cent in 1997 as rising growth and investment have sucked in capital equipment and rising real incomes have gener-

ated higher demand for cars and other western consumer goods, the DMG study said.

Mr Klaus, who as the finance minister of Czechoslovakia prepared three federal budgets before masterminding the "velvet divorce" with Slovakia in January 1993, also suggested EU countries now preparing for

indicators, but this was "just half of the story".

It was equally important to "ensure convergence at a micro level in key areas such as the quality and flexibility of labour and of corporate governance. All these things must be taken into account to ensure the creation of an optimum currency area," he said.

Mr Klaus, who narrowly avoided defeat in parliament over his economic policy earlier this month, admitted that the Czech economy needed tighter rules for corporate governance and regulation of financial markets.

More than six years of nominal currency stability and a one third rise in real incomes had eroded the "twin cushions" of cheap labour and an under-valued exchange rate which had kept the economy competitive in the early stages of reform.

Rigidities and bottlenecks in labour and other markets had developed which also needed to be tackled, but he said unemployment, although still only 3.8 per cent, had risen by 50 per cent over the last 12 months.

Mr Klaus said the Maastricht convergence criteria were all macro-economic

and other western consumer goods, the DMG study said.

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Vaclav Klaus: Need to look below the surface of association accords

Insurer tries to head off Israel boycott

By Norma Cohen in London and Avi Machlis in Jerusalem

Assicurazioni Generali, the Italian insurance giant, is seeking to head off a boycott of its newly acquired Israeli subsidiary by proposing a compensation fund to make payments to heirs of its former policyholders murdered in the Holocaust.

Generali, which bought out the remainder of Migdal, the Israeli state-owned insurer, faced boycott calls from key Knesset members after it appeared to renounce on promises to open its files to Yad Vashem, the Israeli Holocaust memorial institute, and to establish a compensation fund.

However, Generali's gesture of a \$12m compensation fund is considered too small by some Knesset members, who yesterday were pressing Generali for more money.

Also, the deal, which was to have been announced yesterday, requires the Knesset to agree that Generali never benefited from the Holocaust and has no legal obligation to pay proceeds of policies of Holocaust victims who lived in eastern Europe.

Generali, based in Trieste, was the market leader in the eastern European insurance market before the second world war. Its history as a Jewish-owned company gave it an even stronger market share among eastern European Jews, most of whom were murdered during the war.

Generali has insisted that

because its assets in eastern Europe were nationalised by Communist governments after the war, it has no legal obligation to pay policies. It has also insisted that it never benefited from the Holocaust.

However, documents obtained by the Financial Times show that at least one country, Czechoslovakia, paid the Italian government a substantial sum to settle claims of "Italian assets, rights and interests".

The agreement, signed in 1986, applies to assets which were "owned directly or indirectly, totally or in part, by persons having the Italian citizenship or by companies" based in Italy. In addition to a 1.26bn payment to Italy, the Czech government turned over shares in two Generali subsidiaries which it had in its possession.

Generali acknowledged it had received some payments from east European governments but said these were not in respect of assets which backed insurance policies.

Evidence has also emerged that Generali insured Nazi-run concentration camps. Italian press reports, citing German government archives, say that on 26 October 1942, Generali agreed to participate in a pool which provided 3m zlotys of insurance for lodging and workers' barracks at a camp in Cracow, Poland.

Several months later, it provided 10 per cent of the 6m zlotys of insurance on an expansion of the camp.

Turks in new move to bar Cyprus from EU

Turkey yesterday stepped up its campaign to stop Cyprus joining the European Union, on the very day the conclusion of the EU's 15-month inter-governmental conference in Amsterdam cleared the way for enlargement negotiations.

Two years ago, the EU committed itself to begin membership talks with Cyprus six months after the end of the IGC. Greece secured this concession as the price of its agreement to a customs union between the EU and Turkey, which came into force last year.

Even so, Turkey at the time served notice of its objections, arguing that the Greek Cypriot government

Ankara has enlisted the aid of leading British lawyer to rule out membership on legal grounds, writes Edward Mortimer

had no right to take the divided island into the EU without the consent of the Turkish Cypriots. Turkey even threatened to annex the northern two-fifths of the island, occupied by Turkish troops since 1974, if the Union admitted a Cyprus government which represented only one community.

Since then, Greece has threatened to veto EU enlargement into central and eastern Europe unless Cyprus is admitted at the same time. Both threats are taken seriously by the US,

and form the background to President Bill Clinton's recent appointment of Mr Richard Holbrooke, negotiator of the Dayton Accords on Bosnia, as his special emissary for Cyprus.

Turkey's latest move has been to obtain a formal legal opinion from a leading British lawyer, Professor Maurice Mendelson QC, who concludes that Cyprus's accession to the Union would be incompatible with the Treaty of Guarantee signed by the UK, Greece, Turkey and Cyprus at the

time of the island's independence in 1960.

Ankara yesterday handed this opinion to the British government, reminding it of its obligations both as a guarantor power and as the country which will hold the EU presidency when enlargement negotiations are due to start early next year.

The UK has given no official reaction, but Sir David Hannay, the British envoy on the Cyprus dispute, is said to have told both the Turkish government and the Turkish Cypriot leader, Mr

Rauf Denktaş, that legal advice received by Britain differs from that of Prof Mendelson.

Prof Mendelson contends that, in the Treaty of Guarantee, Cyprus undertook "not to participate, in whole or in part, in any political or economic union with any state whatsoever". The guar-

antor states (Britain, Greece and Turkey) undertook "to prohibit, so far as concerns them, any activity aimed at promoting, directly or indirectly... union of Cyprus with any other state".

Cyprus has previously rejected this argument on the grounds that Turkey and the Turkish Cypriots have themselves breached the 1960 agreements and constitution, and that the ban on union with other states "was not intended to apply in the case of Cyprus's joining an international organisation".

Prof Mendelson, however, quotes the negotiating record of 1960 to show that at that time the British, Greek and Turkish foreign ministers all understood the agreement as banning Cyprus's membership even of a free trade association, unless both Greece and Turkey were also members.

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NEWS: WORLD TRADE AND EUROPE

Moscow launches big oil sell-off

By John Thornhill
in Moscow

The Russian government is aiming to raise \$65,000bn (\$650bn) by selling big stakes in six state-owned oil companies in a series of auctions starting tomorrow.

The share sales will give renewed impetus to the government's privatisation programme, which has been dogged by controversy over recent months. They will also raise much-needed revenue for the government, helping it pay off its massive debts to pensioners and federal employees.

Last month, Mr Alfred Kokh, privatisation minister, said the government planned to raise \$65,000bn this year from sales of state assets against the \$65,000bn target originally pencilled into the 1997 budget.

Oil industry analysts suggested the most likely buyers of the government stakes in oil companies for sale were other oil groups and the so-called financial industrial groups (FIGs), which have coalesced around the country's biggest commercial banks.

Foreign companies are

likely to be barred from the auctions although they may be able to buy shares in the secondary market in future.

Government critics have alleged that recent privatisation have given insider banks control of some of Russia's most valuable companies at a fraction of their real worth.

Even some government ministers have conceded that the shares-for-loans privatisations of 1995 were conducted in a poor manner, enabling a handful of well-connected banks to acquire huge packets of assets for a song. But Mr Anatoly Chu-

bois, the first deputy prime minister, vowed recently that the forthcoming wave of privatisations would be conducted to the highest standards and subject to legal challenge.

The most attractive of the six oil companies on the auction block would appear to be NORSI-Oil, one of the country's biggest refineries, which has a strong grip on the lucrative Nizhny Novgorod market.

Lukoil, Russia's biggest privatised oil group, has already expressed an interest in acquiring the 40 per cent stake on offer although

it may face competition from Tatneft, the dominant oil company in the central Russian republic of Tatarstan.

The other oil companies for sale include Vostokneftegaz, Eastern oil company, Sibur, Tyumen oil company, and Komitek, which are all middle-ranking producers or refiners. The government will sell up to 51 per cent of these companies although the results of the auctions may not be known before the autumn.

In a separate announcement, the state property committee revealed there would be a further week's

delay to the proposed sale of a 25 per cent stake in Svyazinvest, the telecommunications holding company.

The government has set a minimum price of \$1.2bn for this shareholding. Foreign companies will be allowed to participate in the auction although they may face difficulties in complying with some of its technical provisions.

The government will launch bankruptcy proceedings against the Nizhnevartovskneftegaz oil and gas company, Mr Chubais said yesterday. AFP reports from Moscow.

UK bid for top Italian soccer club

By Patrick Harverson
in London

Vicenza could become the first top Italian football club to fall into foreign hands if a bankruptcy court on Friday approves a British investment company's £22bn (£13m) bid for the Italian cup winners.

Stellican, a small London-based concern which specialises in acquiring troubled companies but with no previous involvement in football, has outbid two Italian consortia for the right to buy Vicenza from a group of local businessmen.

The club, which is profitable in its own right, was put up for sale when its owners' assets were placed in receivership following the collapse of their textile empire.

The two other bidders have offered £18.5bn and £16bn for Vicenza, which finished eighth in the top Serie A division last season and recently won the Italian cup.

Although Stellican has outbid its rivals, Mr Stephen Julius, its managing director, is worried that a foreign takeover could prove unpopular with fans and might affect the Milan club's decision.

"We put in sealed bids yesterday and we are clearly ahead of everyone else. But at this point what is of great concern to us is that people might see this as the English versus the local Vicenzini," he said yesterday.

Mr Julius said Stellican, which has close ties to the big US investment group Apollo, planned substantial investment in Vicenza. "We

would like to redevelop the stadium, invest in new players and develop sponsorship and merchandising. We will start building an entertainment group around Vicenza, and it will all be for the benefit of the club.

Traditionally one of Italy's smaller clubs, Vicenza in recent years has climbed from the third division to the top flight. It has also kept a tight rein on its finances by controlling its wage costs and developing its own young players.

"It's a very interesting club with a good management team that has done very well. It is one of few clubs in Italy that is profitable," said Mr Julius.

Last season Vicenza, which has no debts, made a profit of £3.3bn (£1.9m) on turnover of £33.7bn (£19.7m). The stadium, which is owned by the local municipality, holds 22,000 and attendance average 17,000 a match.

Stellican's bid is backed by a group of UK investors and include people with experience of the football business in England, said Mr Julius. "Within our group are people who know football extremely well."

However, he warned that Stellican was not interested in becoming involved in a bidding war for Vicenza. "The judge's main responsibility is to maximise the offer on behalf of the creditors. But we are the only professional investor group to have made a bid. The rest are local entrepreneurs. We are here to develop the club and nationally has nothing to do with it."

American places big order for regional aircraft

By Bernard Simon in
Toronto and Jonathan
Wheatley in São Paulo

American Eagle, the regional airline unit of American Airlines, yesterday announced it would buy 42 jets from Embraer of Brazil and a further 25 from Bombardier of Canada. The orders, worth \$700m each, were announced at the Paris Air Show and illustrated the strength of the market for smaller 50- to 70-seater jets.

The Bombardier deal includes 25 orders and 25 options for the planned 70-seat version of Bombardier's Canadair regional jet (CRJ). Deliveries are due to start in 2001. The aircraft, known as the Series 700, is a stretched version of the existing 50-seat CRJ. The American Eagle order comes on the heels of orders and options for 75 CRJs placed earlier this month by ComAir, a Delta Air Lines affiliate.

Bombardier has notched up 284 firm orders and 223 options for the CRJ since production began in 1992. The aircraft has enabled airlines, mostly in North America and Europe, to open routes that would be uneconomical with larger jets.

Its main competitor, the Brazilian-built Embraer 145, has a slightly narrower fuselage but a lower price tag. The contract with Embraer is for an initial 42 EMB-145 50-seat jets with an option for an additional 25. The American Eagle order is worth about \$670m at today's prices, rising to \$1bn if all options are exercised.

American Eagle stressed it is limited to operating 67 jets under a contract with the Allied Pilots Association. American's pilots did not want American Eagle to start flying jets because they feared it would cost jobs among pilots at the parent airline.

Embraer, which was privatised in 1994, is expected to begin delivery next February and complete the initial order by November 1999. Bombardier will make deliveries between the first quarter of 2001 and the third quarter of 2003.

The deal marks the consolidation of Embraer's drive for competitiveness following privatisation - staff numbers have fallen to 3,600 from 12,500 in 1990 - and is expected to return it to the black in 1997 after seven consecutive years of losses.

The deal follows a contract signed last year to supply 25 EMB-145s to Continental Express and brings its total firm orders to 107 jets, worth about \$1.6bn, with options for a further 219 worth an additional \$3.3bn.

The company said it may hire more staff to enable it to meet the order. Production of the EMB-145, currently two units a month, would rise to four a month by September and six a month by next May.

US intolerance and distrust put a brake on trade treaty's success

Growing links between Tijuana and San Diego are frustrated by cultural differences. Christopher Parkes tells a tale of two cities

NAFTA



Bound by common economic and social interests, and separated by political and cultural differences, San Diego and Tijuana make uneasy neighbours. Both have been enriched by the 1993 implementation of the North American Free Trade Agreement (Nafta). Yet, while people and goods move in increasing volumes over the San Ysidro border, the political will to tighten the cities' links is governed by the ups and downs of relations between Washington and Mexico City.

Ms Susan Golding, mayor of San Diego, has emerged as a rare consistent voice. She has urged closer political collaboration, and has drawn

This is the third article in a series analysing the effects of Nafta in the run-up to the Clinton administration's review of the trade pact, to be presented to Congress on July 1. The first two articles appeared on June 6 and June 11.

criticism from Sacramento, California's state capital, for a mutual aid agreement in the event of natural or other emergencies.

She sees the political process being driven by the "natural" increase in economic integration and the increasingly Hispanic nature of the southern Californian population. But, she adds, the pace of change at the political level will be dictated by the differences between the neighbours' first and third world cultures.

By any conventional definition, the San Diego-Tijuana area is a single metropolitan area, the ninth largest in the Nafta region, according to San Diego Dialogue, an independent think-tank.

Although divided by an international frontier, the communities mingle unhindered. About 30,000 people, some 10 per cent of Tijuana's

resident workforce, work in San Diego, and 10,000 San Diego workers commute daily to Mexico.

A quarter of all border crossings are primarily for social visits, while Mexicans account for 10 per cent of retail revenues in San Diego shops, according to Mr Kelly Cunningham, research manager at the Greater San Diego Chamber of Commerce.

There is a detectable frustration among many local observers, who agree that if closer political links are logical and even essential to deal with the region's infrastructural deficiencies, they are not necessarily inevitable.

"If you look at the alternatives for the region, [collaboration] would be an intelligent decision to make," says Ms Millicent Cox, San Diego Dialogue's senior economist.

"The border is not a dead end," says Mr Cunningham, and complains that political resistance to accepting it as a profitable avenue for exploration drains the region's economic potential. Much of the obduracy, says Ms Cox, is rooted in a US "we-have-the-resources-and-they-don't" attitude, and mistrust of foreign cultures which extends far beyond the confines of San Diego's pleasant suburbs.

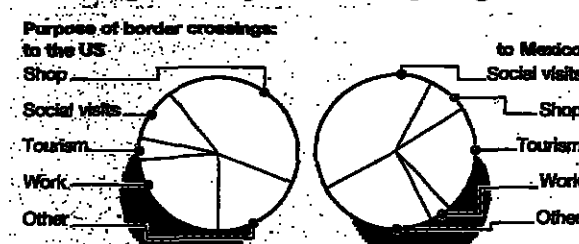
In Sacramento and Washington DC, the border region is often typified as a swarming ground for illegal immigrants and criminals. Yet, as Ms Cox has divined, illegal northbound border crossings in San Diego County represent a negligible proportion of the total.

Her latest data show 98.6 per cent of the estimated 4.7m travelling north last April were admitted legally. "It took me four years to get these findings accepted," she says.

She sees the need to change local and national US attitudes towards Mexicans and their culture as one of the region's biggest challenges, if only because a reputation for intolerance will deter investment by international companies.

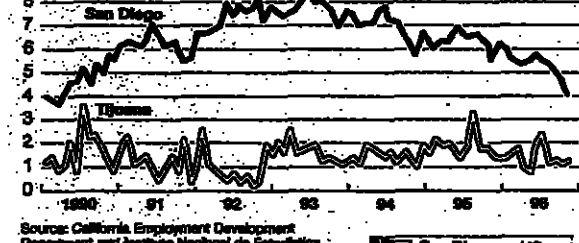
But San Diego has other practical obstacles to overcome if it is to draw closer to its neighbour and exploit

San Diego and Tijuana: uneasy neighbours



Source: Survey conducted by San Diego Dialogue at San Ysidro and Cay Mañá, 1992

Unemployment in San Diego and Tijuana (%)



Source: California Employment Development Department and Instituto Nacional de Estadística, Geografía e Informática



more fully the potential offered by Nafta. They, too, are mostly the US side of the border. Some have their origins in the historical political failures of the early part of the century, when the city failed to win federal backing for its attempts to build a trading seaport and get the railway - honours which fell to Los Angeles.

As compensation, the region won a place as the main Pacific coast staging post for the military, and prospered through the second world war, the Korean and Vietnamese conflicts, and during the years of the Reagan military build-up.

Cut off from the rest of California by the vast Camp Pendleton marine base and training grounds to the north and from the US by mountains and desert to the east, San Diego evolved as peaceful, prosperous enclave. But the war divide shrank in the early 90s. Base closures and the effects of national recession drove unemployment up to 8.4 per cent in 1993.

Nafta's role in the subsequent recovery is solidly documented. Unemployment is now down to 4.3 per cent and gross regional product has risen 21 per cent in the intervening three years.

San Diego shipments of goods and services to Mexico have grown 85 per cent, according to the chamber of commerce, and more than 40 per cent of everything the city exports goes south. This makes Mexico more important for the local economy than the next 10 most important foreign markets combined.

Yet the potential for even more ambitious growth is being stifled by San Diego's infrastructural legacy, resistance in rival cities such as Los Angeles, and its own innate conservatism.

More than 90 per cent of trade volume is carried on trucks through overloaded road links. Only 6 per cent travels by ship from a deepwater harbour reserved mainly for the navy and cruise ships. The airport, spanning less than 500 acres, and hemmed in by housing, is too small safely to handle

the Boeing 747 jets most commonly used on international flights.

"Everything that comes through San Diego, including tourists, has to come through Los Angeles first," says Mr Cunningham.

Efforts to ease road congestion, and open up the port for trade from inland states, include a campaign for an estimated \$120m-plus to restore the decrepit San Diego & Arizona Eastern Railway beyond its present terminal in Tijuana. But the project is hobbled by the fact that part of the track runs through Mexico.

This has roused opposition among certain southern Californian representatives in Washington, where their influence is inflated by anti-immigration, anti-drug and xenophobic tendencies.

Such forces also played a role in sidelining one of the most ambitious collaborative ventures yet attempted: a cross-border international airport. The plan to build a runway complex with terminals on both sides of the border stumbled over a clash over who should erect and man the control tower.

"If the decision lay between two first world countries, or between allies who had never been to war together, it would not have mattered so much," says Mayor Golding.

She and other local leaders expect such negative elements in the relationship eventually to erode as economic and racial integration continue. By 2020 the distinctions may have become so blurred as to be inconsequential. The formal frontier between the two communities remains firmly in place, but the socio-economic border is shifting southwards.

Taking relative income distribution as a guide, Ms Cox says San Diego/Tijuana is the only cross-border area where the middle class residents outnumber low income earners on both sides.

About half the population of both cities can now be classified as middle class, with 30 per cent ranked as low-income earners. Young Tijuana and San Diego professionals already have almost identical purchasing habits.

"The two cities are really very similar," she says. Both are geographically remote from the rest of their respective countries. "Tijuana is not really part of Mexico and San Diego is not really a part of the US."

WORLD TRADE NEWS DIGEST

Airline denies Airbus deal

Mr Stephen Wolf, chairman of US Airways, said yesterday that his company had not made Airbus Industrie its exclusive supplier and that he was considering buying Boeing 777s.

US Airways last November placed an order for up to 400 single-aisle Airbus aircraft. Defenders of Boeing have claimed the order makes Airbus US Airways' sole supplier, and that Boeing is entitled to strike similar deals.

Boeing has been appointed exclusive supplier by three US carriers: American, Delta and Continental Airlines. Airbus says the deals are illegal.

Mr Wolf said the Airbus order would go ahead only if he was able to reach cost-cutting agreements with his unions. If agreement was reached, US Airways would buy at least 12 wide-bodied aircraft in addition to the 400 Airbus 777s. The wide-bodies would be Airbus A330s or Boeing 777s. Michael Sheppherd, Aerospace Correspondent

US favours direct approach

Unilateral pressure on Tokyo to reduce its trade barriers is likely to prove more effective than complaints to the World Trade Organisation, according to a majority of US executives polled in a recent survey.

The poll of 304 executives in US companies doing business around the Pacific Rim was commissioned by the Washington-based Economic Strategy Institute. Most respondents believed Japan had made progress in reducing tariffs, but that US companies still faced unfair trade barriers.

However, Japan was not alone to blame - 39 per cent believed the US government was not doing enough to open the Japanese market. Heather Bourneau, Washington

Moldova WTO plea rejected

Moldova's trading partners yesterday rejected its request to enter the World Trade Organisation as a developing country, but praised its efforts to liberalise its economic and trade regime.

Moldova, a former Soviet republic, told the first meeting of the WTO working party negotiating its accession terms that its economic difficulties justified "a certain flexibility" in complying with fair trade rules.

However, the European Union, US, Japan and Canada all urged Moldova to comply with WTO obligations from the outset. The EU and US also asked for a "standstill" on new trade measures inconsistent with WTO rules.

Moldova, which has a population of 4.5m, has already begun to introduce WTO-consistent legislation, and yesterday presented a plan to open its services sector to foreign competition. Officials said new laws were also pending on customs duties, foreign trade regulations and public procurement.

Frances Williams, Geneva

Thai petrochemical project

Chevron Chemical of the US and the state-owned Petroleum Authority of Thailand (PTT) are teaming up to build Thailand's largest aromatic plant at a cost of \$1.4bn. The project was approved by the Thai cabinet yesterday.

The petrochemical facility, projected to produce 675,000 tonnes of paraxylene and 600,000 tonnes of benzene annually, will be located in the same compound as Star Petroleum Refinery, a joint venture between PTT and Caltex, partly owned by Chevron. The plant will use naphtha from Star PTT said.

Chevron will hold 60 per cent of the new venture and PTT 40 per cent. Two-thirds of the plant's production will be exported throughout the Asia-Pacific region, particularly to China, Korea, Malaysia and Taiwan. It is expected to earn the country nearly \$500m a year in export revenues.

Ted Bardacke, Bangkok

A joint venture between Leighton, the Australian civil engineering group, and Japan's Kumagai-Gumi has been awarded a HK\$1.1bn (US\$142m) contract to design and construct two aqueducts for the Water Supplies department of the Hong Kong government in the New Territories. Work is due to start immediately, and is set to be completed by the year 2000.

Nicks Tait, Sydney

East Asia and the Pacific lead world in travel

By Scheherazade
Daneshkhu, Leisure
Industries Correspondent

East Asia and the Pacific are poised to become the world's biggest regional supplier of travellers, the World Tourism Organisation says. The number of trips taken by people living there outstripped those taken by North American residents for the first time last year.

Travel from East Asia and the Pacific grew 8 per cent, higher than from any other

part of the world, to 94m trips. North Americans made 92m trips abroad.

Japanese and Australian tourists headed those most likely to travel outside the region, but the emerging economies of China, Korea, Malaysia, the Philippines and Singapore are producing most of the region's new international travellers.

More than 5m Chinese travelled abroad in 1996; their strong desire to travel, coupled with steady economic growth, could soon

make China the dominant player in the region's tourism," said Mr Enzo Paci, the organisation's chief of statistics.

Just under half last year's trips by Chinese travellers were to Hong Kong, Macao, Thailand, Vietnam and Japan were other destinations.

Japanese outbound travel grew nearly 10 per cent to more than 25m trips. The US, Italy and France were the most visited long-haul destinations; within the region, Hong Kong, China,

Korea and Singapore topped the list.

Travel to East Asia and the Pacific grew 9.5 per cent to 87m visits last year. But the organisation warned that the region's tourism growth rate could be held back by airport congestion.

Earnings from international tourism increased 9.8 per cent to \$81bn. Receipts from China and Hong Kong totalled \$21bn last year, making it fifth biggest tourism earner after the US, Spain, France and Italy.

Trends in outbound travel

Regions	Total trips abroad (000)	% change 96/95
World	1,061,151	3.4
Americas	89,391	3.3
of which North America	16,780	3.9
Caribbean/Central and Southern America		
East Asia/Pacific	308,787	1.9
Europe	308,787	1.9
Middle East	4,574	4.3
South Asia		
World total	1,061,151	3.4

Source: World Tourism Organisation

■ Currency restrictions to be lifted ■ Privatisation speeded up ■ Budget deficit cut

Israel agrees sweeping finance reforms

By Judy Dempsey
in Jerusalem

Mr Benjamin Netanyahu, the Israeli prime minister, yesterday agreed to introduce sweeping reforms aimed at cutting the budget deficit, lifting foreign currency restrictions and speeding up privatisation.

The measures, unveiled after a two-day marathon session between Mr Netanyahu, Mr Dan Meridor, the finance minister, and Mr Jacob Frenkel, governor of the Bank of Israel (BOI), will be phased in next year.

Mr Netanyahu said he would liberalise foreign currency transactions, allowing institutional investors and Israeli funds to trade abroad as well as unhindered access to foreign currency accounts, all of which could pave the way for full convertibility of the shekel.

At the same time, he said it was agreed that this year's budget would be cut by as much as Shk600m (\$175.7m) to bring the deficit down from 4 per cent of gross domestic product to 2.8 per

cent this year.

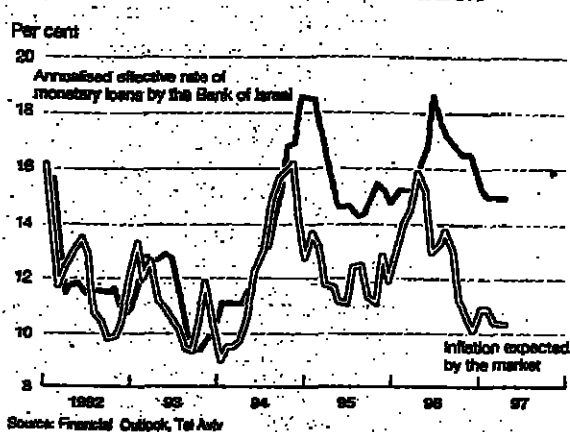
The ambitious plans, often talked about in recent months, disguise a conflict between the finance ministry's conduct of fiscal policy and the Bank of Israel's tight monetary policy.

Mr Meridor, at loggerheads with Mr Netanyahu over his style of governing, has insisted that in return for further reductions in the budget deficit, the bank should reduce interest rates. The prime lending rate is 15.4 per cent, while the rate for daily loans to commercial banks is 13.9 per cent.

His argument is that high interest rates are attracting foreign capital, which is pushing up the value of the shekel and threatening exports. For the first quarter of this year, exports of goods and services increased by 13.5 per cent compared with the previous quarter, but they were up just 6.1 per cent on the same period a year ago.

Mr Meridor believes that with inflation running at an annual rate of 9.5 per cent

Israel: interest rates and inflation



Source: Financial Outlook, Tel Aviv

there is room for some slackening in monetary policy.

Herein lies the nub of the conflict between the finance ministry and the central bank, a conflict in which Mr Netanyahu may well be forced to choose sides. It was partly this issue which prompted the prime minister to call a cabinet meeting last night.

Mr Frenkel is determined to keep inflation down, cutting it to between 8 per cent

and 9 per cent by the end of the year. However, there has been a big inflow of foreign exchange in search of high-yielding shekel investments. This has had the effect of increasing the money supply which, since December 1996, has widened by about 19 per cent annualised. "This pace is out of line with the inflation target and real activity for growth for that period," said Mr Gil Sufman, an economist.

This has prompted the BOI to intervene in the markets in an attempt to stem the rise of the shekel. Traders said the BOI intervened heavily yesterday, buying close to \$500m to ease the upward pressure on the currency.

The shekel is tied to a basket of currencies and is allowed to trade in a band of 7 per cent above or below a declining line designed to devalue the Israeli currency by 6 per cent a year. The BOI wants to widen the band.

Economists said this would have the immediate effect of appreciating the shekel. "Essentially, Frenkel is seeking an equilibrium for the currency," said Ms Daniela Finn, analyst at Ilanot-Batucha Investments.

The idea that the shekel would appreciate as a result of such a move has hardened the resolve of the finance ministry and the business community to oppose any such measure. They believe exports would be further hit, arguing that growth is already slowing - about 3

per cent this year compared with 7.1 per cent in 1995 and 4.4 per cent last year. There is also concern about rising unemployment. It rose 1 per cent last month to an annual rate of 7.7 per cent this year compared with 6.7 per cent last year.

"It's quite clear that if the BOI wanted to curb the money supply and the inflow of foreign exchange it should first cut interest rates. This would also stimulate the economy," a finance ministry official said.

But by last night, Mr Frenkel seemed determined to try to persuade Mr Netanyahu to support a new band structure and adhere to current monetary policy.

"Mr Netanyahu should make these tough decisions now and end the long conflict between the fiscal and monetary policy makers," a BOI official said.

"It's not only the bank which wants a clear strategy. The markets are tired of the uncertainty over economic policy. It's time for hard choices."

Editorial Comment, Page 11

Bid to relax ivory trade ban fails

By Tony Hawkins in Harare



Zimbabwe's President Mugabe will sell ivory regardless

A South African compromise resolution allowing strictly-controlled trade in ivory and other elephant products was defeated by three votes at the Cites meeting on endangered species in Harare yesterday.

The three southern African countries - Botswana, Namibia and Zimbabwe - pushing for the downlisting from appendix one, which forbids any international trade, to appendix two, allowing controlled trade, failed by just three votes to secure the two-thirds majority required.

A total of 75 of the 123 countries voted in favour of the Pretoria compromise with 41 voting against and seven abstaining.

The southern Africans needed 78 votes to secure downlisting under the Cites (Convention on International Trade in Endangered Species) rules. Under the South African compromise, the resumption of trade in elephant products and ivory would have been accompanied by very tight quotas and controls from 1999.

Japan would have been the buyer of ivory products. Botswana would have been allowed an ivory export quota of 25.3 tons, Zimbabwe 20 tons and Namibia 13.8 tons.

There will be a vote on the main downlisting resolution today at which the southern Africans are again likely to lose, though with yesterday's defeat being so narrow, it is just possible that some delegations will change their votes. Initial reaction from the downlisting lobby was one of disappointment at having got so close, mixed with irritation at the seven states that abstained.

European Union members are being blamed for abstaining on a technicality - namely the timing of a

report of experts. The fact that the three southern African countries pushed for a vote on the compromise resolution suggests that they expect to lose today. Zimbabwe has already said that regardless of the outcome of this week's votes it will go ahead and export ivory. It has already entered a reservation meaning that it can trade in ivory if it wishes, though this is dependent on an importing country - in this case Japan - being willing to lodge a similar reservation which, as yet, it has not done.

● The meeting rejected contentious proposals by Japan and Norway to relax an 11-year ban on commercial whaling.

They failed to win a two-thirds majority in a secret ballot on their bid to resume catches of various whale species which they say are abundant and not endangered.

This is the third time that Japan and Norway have tried and lost their push for a relaxation of the embargo which Cites adopted after the International Whaling Commission (IWC) imposed a moratorium on commercial whaling in 1986.

'Rich turn back on growing tide of refugees'

Amnesty accuses west of forcing human rights victims into the arms of their persecutors

By Michael Holman

The number of refugees fleeing human rights violations has almost doubled in the past 10 years and their plight is worsening, Amnesty International said yesterday.

"The international regime that is supposed to protect refugees is in crisis," warned the London-based agency in its annual report, saying there had been a "marked deterioration" in 1996 in the level of international protection for refugees.

"Countries which proclaim the importance they attach to human rights simultaneously force men, women and children back into the arms of their persecutors by obstructing access to asylum

procedures, misinterpreting the UN Refugee Convention definition of who is a refugee and forcibly returning those who are in need of protection," says Amnesty.

The UN Refugee Convention and its Protocol "often prove inadequate because many situations faced by refugees today are deemed to fall outside its terms... as the reasons why people flee their homes are becoming more complicated in a world beset by armed conflict, political instability and persecution of one nationality by another".

Amnesty accuses the countries of the rich North of employing a variety of legal and administrative measures to obstruct and deter refugees from seeking

asylum, increasing the burden on the governments of the South, which host 85 per cent of the world's refugees.

In Africa alone, the report points out, there are 5m, one third of the world total, as well as at least 15m of the 25m to 30m people around the world who have been "internally displaced" - forced to leave their homes, though remaining within their country's borders.

The logistical, environmental and economic strains of the refugees on poor countries are "enormous, and their governments are starting to coerce refugees to return to their countries of origin".

The report highlights the refugee crisis in eastern

Congo, formerly Zaire, accusing forces loyal to the country's new leader, Mr Laurent Kabila, of massacring refugees from Rwanda and Burundi as well as displaced Zaireans.

The survivors "are in grave danger of continued human rights abuses and they are not getting from states and intergovernmental organisations the full protection which is due to them", warns Amnesty.

Turning to Europe, Amnesty reports that the refugee crisis that followed the break-up of Yugoslavia shows little sign of improvement: "One year after the peace agreement which brought an end to open conflict, there has been

little real progress towards establishing the durably safe conditions which would allow refugees and displaced people to return to their homes.

In the Middle East, "mass human rights violations have forced countless people to flee their countries", while more than 50,000 people have been killed in political violence in Algeria since 1992.

Serious human rights violations were committed in virtually every country of the Asia Pacific region during 1996, according to the report.

Amnesty said it was concerned that the right to freedom of expression and association could be severely curtailed in Hong Kong

following its return to Chinese sovereignty on July 1.

It expressed particular worries over the proposed repeal by the incoming Hong Kong special administrative region government of 18 laws and amendments to nine others, including the bill of rights.

Amnesty, which campaigns for the abolition of capital punishment, reports that at least 4,272 prisoners were executed in 39 countries, and 7,107 people were sentenced to death in 76 countries.

Amnesty International Report, 1997, 99-119 Roseberry Avenue, London EC1R 4RE Fax: (44) 171 833 1510 Refugees and the west, Page 10

International hostility stiffens the resolve of Sudan's rulers

The country's military president has become noticeably more assertive since his nomination last year, writes Mark Huband

Sudan's ruling alliance of military officers and Islamist politicians will tighten its grip on power in response to international isolation, economic crisis and the shattering of political unity among the country's northern Moslems, according to political analysts.

A new constitution expected to be passed later this year will entrench the incumbent regime while giving some free expression to other parties as long as they abandon hope of real power.

Faced with implacable hostility from the US at international donor meetings, and overt support by its neighbours for armed groups bent on overthrowing it, the regime is now reforming from within, as leaders of the military-religious alliance juggle for power.

Since his nomination as president in a tightly-controlled contest last year, seven years after seizing power in a military coup, Lt Gen. Omar Hassan al-Bashir has been noticeably more assertive, at the expense of Mr Hassan al-Tourabi, the leader of the National Islamic Front which rules in alliance with the military.

Mr al-Tourabi has increasingly been associated with failed foreign and economic policies which have led to Sudan's isolation.

"If the NIF were not in power, its support would be halved," said Mr al-Tayyib Zain al-Abidin, a moderate supporter of the NIF and long-time political associate of Mr al-Tourabi.

"There are people within the NIF who are not happy with what is going on," Mr al-Abidin, a professor of political science at Khartoum university, said. "The government has lost support for its economic policies. Currency changes, limitations on withdrawals from banks giving tax inspectors the right to look into people's bank accounts - all these things, which have mostly been abandoned but are remembered - were criticised."

Its political direction has



President al-Bashir: 'The military people are now more in charge than they used to be'

been forged by expediency rather than principle, its shifting alliances, and its response to the taste of absolute power since 1991, when it launched its Islamisation programme in alliance with the military coup leaders.

"At one time Tourabi was the strongest person in the government. It's no longer the case," said one NIF insider.

Recent behind-the-scenes support by Mr al-Tourabi for reform organisations, most of them Islamic, wanting to retain tax exemption on the SD4m (\$26m) worth of private business they conduct in Sudan, was insufficient to allow them to retain their exemption.

Despite some privatisation, economic policy-makers have found little comfort in the increasingly dogmatic political climate.

"We say to the minister of finance and the government that we need to have better relations with the US, with the other western countries, and with the donors," said Mr Abdalla Hassan Ahmed,

the governor of the Bank of Sudan. "They agree with that in principle. But they are a government in a certain political situation."

The changing complexion of the core power structure reflects the evolving crisis facing the regime.

Another disillusioned NIF insider said: "All the senior army officers are in [President] al-Bashir's camp. None of them is siding with Tourabi. Now the most powerful decision-maker is the president."

"The military people are now more in charge than they used to be. They have taken some people from under Tourabi's umbrella," the NIF official said.

Sudan is now divided into two military camps. One allies the government with a group of southern factions - the United Democratic Salvation Front - with which it signed a peace agreement on April 21 guaranteeing southerners the right of self-determination.

The other camp - the National Democratic Alli-

ance - links the government's opponents within the north, led by Mr Sadiq al-Mahdi, the former prime minister, with Mr John Garang, leader of the main southern military faction, the Sudan Peoples' Liberation Army.

The NIF retains its own well armed and well paid militia, which is responsible for political repression and continues to use torture as its main political weapon at government "ghost-house" prisons in the suburbs of Khartoum, according to witnesses.

The pragmatism of those in power has led to accusations from religious conservatives - as opposed to the modern Islamists guiding the regime that the government retains only one aim, that of staying in power. A threat from within, coupled with the growing threat from outside, is what the regime is determined to pre-empt.

"There's no question of a coup in the army against the system," Mr al-Tourabi said in an interview. "Which way are the officers travelling? All the officers believe in these principles," he said, an indirect reference to the fact that the senior army ranks have been purged of dissenting voices.

"There may be some demonstrations. But they won't overthrow the system," Mr al-Tourabi said. Mr al-Mahdi would not be arrested if he were to return to Sudan, and, in accordance with the new constitution, he could return into opposition.

Whatever innovations the government may have in mind, Mr al-Tourabi does not foresee any change in the country's leadership.

"There's not a new generation coming up which is more secular," he said. "I feel that the ideal of any leader is that he has an ability or influence, that he should not remain separate and alone, but integrate and dissolve himself into society. I don't want to grow into a pope or an imam. If most of society becomes like me, that will be my success."

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Electronics worries rise in Malaysia

By James Kynge
in Kuala Lumpur

Ms Rafidah Aziz, Malaysia's international trade and industry minister, warned yesterday that the domestic electronics industry would have to move to a "higher technology plane" to remain competitive internationally.

Her warning comes after statistics last week showed a significant drop in electronics exports in April, raising questions over the competitiveness of one of Malaysia's export industries.

Consumer electronics and electrical machinery exports fell 15 per cent in April from the same month a year earlier. Office machine and data processing equipment registered a 22.6 per cent decline and telecommunications and audio equipment exports dropped 22 per cent. Overall, the country posted a M\$2.1bn (\$835m) deficit for the month.

Analysis said the falling trend represented a decline mainly in value rather than volume of products shipped, meaning prices of some items have been cut. Overcapacity in overseas electronics markets was behind some of the price cuts.

There is concern that as

prices of some goods fall the attractiveness of Malaysia as a manufacturing base could decline. Manufacturing productivity gains dropped to 5.7 per cent last year from 6.6 per cent in 1995. Wages in the manufacturing sector climbed 8.9 per cent in the same period.

Ms Rafidah said the way forward was to climb the value-added chain, so that wage costs become a less crucial determinant of competitiveness. Malaysia must start producing semiconductor wafers, she said. There is one government-sponsored semiconductor wafer plant in Malaysia, but it is not producing on an industrial scale.

Singapore, Malaysia's more advanced neighbour to the south, has been attracting the lion's share of semiconductor wafer investment in south-east Asia. Thailand, where labour costs are lower than Malaysia, has also seen a boom in computer-related manufacturing. But the outlook is not all gloom. Seagate, the US electronics manufacturer, has been investing in disk drive capacity in Malaysia. Output from these plants should start to show in export figures later this year.

Green light for island project

By James Kynge

Undeterred by the financing problems other grandiose projects are encountering, Malaysia is gearing up for its biggest project to date - a M\$30bn (US\$12bn) scheme to reclaim and develop nine islands off the country's north-western coast.

Hock Seng Lee, a marine engineering company, said yesterday it had been awarded a project to reclaim a 2,800 hectare island on which an international airport and seaport are to be built. Plans are in hand to link the island to the mainland by a bridge for a fast train.

Other islands, situated 500 metres to 1km off the coast of the state of Kedah, are to be reclaimed later.

They are intended to become tourist resorts and industrial parks for the defence, aerospace and petrochemical industries, executives involved in the project said.

In all, 15,300 hectares are scheduled to be reclaimed. The overall developer of the project is Samudera Baru Darul Aman, a Malaysian company in which Mr Dennis Yee, executive chairman of the Hock Seng Lee group, has a 25 per cent stake.

The project is backed primarily by Mr Samuel Jundi, chief minister of Kedah, who claims Dr Mahathir Mohamad, Malaysia's prime minister, supports it. Kedah is Dr Mahathir's home state. Mr Anwar Ibrahim, the acting prime minister and

finance minister, who does not necessarily share Dr Mahathir's enthusiasm for mega-projects, has said the scheme needed an environmental impact assessment before it could go ahead.

It is not known how long the study will take.

Analysts were sceptical that funds could be raised for a project which did not seem essential. "Why do they have to reclaim islands when there is surely plenty of spare land in Kedah itself?" one analyst asked.

Investor sentiment has recently turned against a "national project" to build south-east Asia's biggest hydroelectric dam at a cost of M\$13.5bn in the jungles of Malaysian Borneo. A M\$1.46bn rights issue to help finance the Bakun Dam flopped this month.

The company planning to build what is claimed to be the longest building in the world, a 1.6km structure called "bigaworld", designed to snake over a muddy river in Kuala Lumpur, is also encountering difficulties in its attempts to raise funds, analysts said.

The main problem is that stock market sentiment has been fragile since March, meaning equity finance operations have often had lacklustre results.

Adding to the strain are the considerable fund-raising demands expected from the construction of a new administrative capital, Putrajaya, for M\$20bn. The first phase of Putrajaya's construction is already under way.

Hotels are likely losers at HK party

By Louise Lucas
in Hong Kong

For all the attendant Sino-British bickering, the biggest losers of face as China resumes sovereignty over Hong Kong at midnight on June 30 may yet prove to be the hotels.

After months of griping about insufficient rooms to house the hordes of visitors and boasts of mile-long waiting lists (and equally long room tariffs) the industry has performed a sheepish about-turn and admitted to 8,000 empty rooms on the most historic night in Hong Kong's calendar.

Mr Alan Wong, analyst at W.L. Carr, attributes the phenomenon to a mix of speculators buying up blocks of rooms as early as four years ago and hoteliers' greed. "Hotels were trying to gouge

the public: they wanted packages of up to six nights at very high prices," he says. But as the hoteliers see it, they are more stung against than sinning. "There's no greed involved, even though it was very tempting," says Mr Thomas Amacher, general manager of the luxury Regent Hotel and chairman of the hoteliers' trade body.

Rather than pushing up prices, hoteliers say they have simply suspended all corporate discounts. Meanwhile, all sorts of goodies have been thrown into the packages - from silver tankards to cocktail parties - so it is difficult to make strict before and after comparisons.

"Empty rooms are quite a common occurrence with events of this magnitude, such as the Olympics and the handover," adds Mr Peter Borer, general manager of

The Peninsula, the *grande dame* of the territory's hotels. "You end up having empty rooms because people double-book and make plans, and then panic."

Others trace the mirage of full occupancies back to the Excelsior Hotel, which was the first to launch its handover tariff of HK\$1,997 (US\$258) - but just for one night. Years later, when management started collecting deposits from takers they found their would-be guests dead, moved to new addresses, or simply having lost interest in the idea. The hotel has rooms available.

Empty hotel rooms are just one sign that the handover may not be the money-making bonanza a number of economists predicted last year. Shops and restaurants in particular are likely to feel the pinch from restrictions on mainland travellers

over the handover period.

Mr Dong Tao, senior regional economist at Schroder Securities Asia, estimates that about 1 per cent of Hong Kong retail sales could be lost as a result of measures taken by Beijing to quell cross-border visitor flows between June 1 and July 15.

Chinese tourists, who made up 18 per cent of last year's 11.7m visitors, are the biggest spenders after the Japanese, and spent HK\$15.2bn in 1996. This equates to 6.8 per cent of Hong Kong's total retail sales, and Mr Tao adds 5 per cent again to reflect the money spent by Hong Kong residents entertaining their mainland friends, relatives and business associates.

However, while the withdrawal of mainland spending is expected to be a temporary affair, the hotels could

suffer a handover hangover well into next year.

"I think 1998 will be a flat year," says Mr Liam Lambert, general manager at the Mandarin Oriental, one of the territory's glitziest hotels. Like the Peninsula, the Mandarin is full over the handover, when it will be playing host to Baroness Thatcher, Britain's former prime minister, who signed the Joint Declaration in 1984 that started the handover ball rolling.

The Peninsula's Mr Borer agrees, and reckons over-exposure will be partly to blame. "Even the little hinterland newspapers are full of Hong Kong; it makes a fantastic story because there are no wars. I regret that over-exposure very much."

Mr Wong also sees a tendency for certain visitors to avoid Hong Kong once it is part of China. In Japan, for

example, a travel agency is busy promoting Hong Kong as a British colony. After wards, there are fears that sensitivities could flare up - especially in this 60th anniversary year of the Nanjing massacre, when the Japanese stormed into China, and in the wake of the recent conflict over the Daitoyu Islands.

As befits the chairman of the Hong Kong Hotels Association, Mr Amacher is far more optimistic. The new airport opening next April will bring in twice as many tourists and businessmen, he says, and the 12 new hotels now under construction will be a necessary addition.

As to the current 8,000 empty rooms, or 23 per cent of the territory's total inventory? "There's always a last minute pick-up, so there's nothing to worry about," he smiles.



Governor Chris Patten reacts to a missing shot at a game of ping-pong with a student during a school visit yesterday

Democrats plan to protest at handover of Hong Kong

By John Riddling
in Hong Kong

Hong Kong's biggest pro-democracy party yesterday announced plans to stage a protest in the territory's legislature during ceremonies marking the return to China at the end of the month.

News of the move, which may prompt a showdown with officials, followed a decision by authorities to ban plans for a rally on the day of the territory's return to China.

It came amid another setback to pro-democracy groups as the future administration appointed representatives to local government bodies.

Mr Yeung Sum, vice-chairman of the Democratic

party, said members would attend the ceremonies marking the handover at the end of the month.

But he said they would then return to the Legislative Council building to make speeches of protest against plans to replace the legislature with a Beijing-backed body.

The Democrats, the largest group in the existing legislature, refused to seek seats in the post-handover body. They believe it has no legal basis and are mounting challenges in the courts.

"The whole message for the programme is that we support China's resumption of sovereignty over Hong Kong but that we will keep fighting for democracy," said Mr Yeung.

The Urban Council, a local

government body, earlier rejected a request by the Alliance in Support of the Patriotic Democratic Movement in China to stage the first rally under Chinese rule.

The council rejected the application for the rally on the grounds that a pro-China women's group had already planned a carnival in the same location, Victoria Park.

"You can imagine that it is purely political censorship to block the Alliance from using Victoria Park," said Mr Fred Li, a legislator from the Democratic party. "That has really hurt the council's image."

The rejection of the application came as the government-in-waiting said it would leave in place existing members of local govern-

ment in municipal councils and district boards. However, pro-democracy parties reacted angrily to the announcement that more than 100 new appointed seats would be installed in local government. The new seats are dominated by pro-Beijing groups.

"It is a very bad message to the whole world that Hong Kong is going backwards in terms of democracy," said Mr Yeung.

Mr Chris Patten, Hong Kong governor, also criticised the move.

"Nobody argues that the present district boards work badly. They work extremely well. They are going to be joined by people who haven't been elected. It is a curious sort of democracy," he said.

ASIA-PACIFIC NEWS DIGEST

Manila budget target missed

The Philippines posted a budget surplus of 4.9bn pesos (\$186m) for the first five months of the year, falling short of the government's target of 11.3bn pesos and the 12.6bn pesos recorded for the same period last year, according to the Bureau of Treasury yesterday.

Government revenues totalled 179.8bn pesos against expenditure of 174.9bn pesos. News of the budget surplus - Manila has run one for the past two years - accompanied positive news on the trade deficit which fell 35 per cent to \$860m in April year-on-year, according to government figures. The National Statistics Office said the total trade deficit for the first four months was \$3.75bn, 5.9 per cent down from \$3.99bn last year. The improved trade deficit comes as good news for government economic planners, among criticism from some analysts of the rigid foreign exchange rate with the dollar.

Separately, the government yesterday formally requested an extension of its three-year borrowing programme with the International Monetary Fund which expires on June 23. Congress has failed to pass the final portion of the comprehensive tax reform programme, the last big obstacle to graduating from the IMF's tutelage after 23 programmes in 35 years. *Justin Marozzi, Manila*

Narayanan set to be president

Mr K.R. Narayanan, India's vice-president, is favourite to be next president after winning the support of the ruling United Front and Congress party. Nominations close next week ahead of the election of the country's 11th president on July 14 by an electoral college comprising national and regional MPs. The UP and Congress have the greatest weighting in the electoral college and their endorsement of Mr Narayanan late on Monday means his election to the top ceremonial job is now a formality.

If Mr Narayanan is elected he would be the first president from the backward classes, a significant development in the 50th year of India's independence. An estimated 75 per cent of the 960m people are from the backward classes, formerly known as untouchables. Dr Shankar Dayal Sharma, the departing president, is a high-caste brahmin. *Rhazem Merchant, New Delhi*

Taiwan reunification pledge

Taiwan's foreign minister yesterday reiterated his government's commitment to eventual unification with rival China, on the eve of Hong Kong's transfer to Chinese sovereignty. Mr John Chang appeared to adopt a conciliatory tone toward China, amid protests from Beijing at his visit to the US, in spite of Taiwanese military exercises scheduled to be held early next week in a display of defensive firepower against a potential Chinese attack.

Beijing views Taiwan as a renegade Chinese province and refuses to rule out the use of force to recover it.

Mr Chang appealed for backing from the international community for Taiwan's cause. "It takes time, wisdom, patience, and most important of all, world support, to persuade mainland China to take us as her equal... there is no easy walk to reunification," he told the Los Angeles World Affairs Council, a civic group. *Laura Tyson, Taipei*

UK names envoy to Beijing

Britain has appointed Mr Tony Galsworthy, 52 (pictured right), as its ambassador in Beijing. He will replace Sir Leonard Appleby, who has served in the Chinese capital since 1995, in December. Mr Galsworthy, former senior representative on the Joint Liaison Group dealing with Hong Kong's transition to Chinese rule, has served in Beijing twice before - in the early 1970s and 1980s. A fluent Chinese speaker, Mr Galsworthy will come to China as ambassador at a relatively young age. His present post is as one of the Foreign Office's three deputy under-secretaries. He headed the Foreign Office's Hong Kong department in 1984 at the time of the Joint Declaration which cleared the way for Sino-British negotiations on details of the colony's return to China's control. *Tony Walker, Beijing*

The Vatican has issued a thinly-veiled warning to China to respect the rights of Catholics after next month's hand-over of Hong Kong. The warning came in the form of a dossier prepared by Fides, the agency in the Vatican's ministry for overseas missions, and highlights the freedom of worship enjoyed by Catholics in Hong Kong compared with the frequent persecution of their co-religionists in China. The Vatican is reportedly concerned that, even though China is committed to the principle of one nation, two systems, Hong Kong Catholics risk being in an exposed position since many are members of the Democratic party. The church is also active in social work in a way which has never been tolerated in China.

The Fides dossier says the Holy See has received unofficial reassurances Peking will not interfere in the nomination of bishops in Hong Kong or in the local church's relations with Rome. *Robert Graham, Rome*

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Taiwanese currency hits eight-year low

By Laura Tyson in Taipei

Taiwan's currency slid to an eight-year low yesterday amid signs that the island's monetary authorities may be happy to see a weaker currency to help to buoy exports.

Spurred by strong commercial demand for the US dollar, the Taiwan dollar closed at 27.917 against the US currency, the lowest level since January 7, 1989.

The central bank has not given any indications of a target level, but economic analysts believe the bank will not allow the local unit to fall below T\$28 to the US dollar.

Several factors are said to be behind the currency's gradual downwards trend, both internal and external.

A ban on exports of pork declared in March due to an outbreak of foot-and-mouth disease on Taiwan's pig farms saw exports cut by nearly US\$150m a month, helping reduce demand for Taiwan dollars from exporters.

Uncertainty surrounding

Hong Kong's approaching transfer to Chinese sovereignty may also have had an impact on the currency.

Central bank officials cite unusually high capital outflows in May as the main cause of what they believed was a temporary decline in the currency's value. Foreign portfolio investors on the stock market remitted a net US\$436m out of Taiwan last month as share prices appeared to stabilise following big gains in the early part of this year.

"If there is no [further] outflow interference, the room for depreciation of the Taiwan dollar is limited," said Mr Hsu Chia-tung, deputy central bank governor, in an apparent effort to stem the slide.

But analysts pointed to the falling trade surplus and a balance-of-payments position that may go from surplus in the first quarter into a deficit in the second quarter. Both these factors exert downward pressure on the domestic currency.

Internally, the real economy remains weak and,

given the limited success of government policy efforts to stimulate the economy through lower interest rates and looser liquidity, the only engine to stimulate growth is exports.

"The central bank is happy to see a weaker Taiwan dollar," said Mr Stephen Wang of HSBC James Capel. "But 28 is the bottom line."

Japan and South Korea are Taiwan's main competitors in the important electronics sector. A weaker currency would make Taiwan products more attractive, Mr Wang said. The Taiwan dollar has fallen nearly 15 per cent against the Japanese yen since the beginning of May.

Exports to the US, Europe and Hong Kong and China are up on last year, rising 8.8 per cent, 7 per cent and 4.6 per cent in the first five months of this year. But exports to Japan - which maintains a persistently high trade surplus with Taiwan - suffered from last year's yen gains and this year's pig disease crisis.

Cohen 'to study latest Gulf war sickness claims'

By Bruce Clark in Washington

Mr William Cohen, US defence secretary, has pledged to look carefully at the latest allegations in a row over illness among Gulf War veterans, though the charges could mean further embarrassment for the Pentagon.

Mr Cohen, on a tour of the Gulf region, also denounced the testing by Iran of Chinese-made anti-missile missiles, while insisting the US would not be the instigator of any clash with Tehran.

Fresh recrimination over the physical and psychological disorders suffered by thousands of Gulf war veterans has been triggered by a report from the General Accounting Office, a fact-finding arm of Congress, which found "substantial evidence" poison gas was a factor.

Leaked in part to the press, a draft of the GAO report said there were "unanswered questions" about the veterans' possible exposure to aflatoxin, a biological agent, in the 1991 conflict.

The study was instantly denounced as a rehash of existing scientific data by investigators now working for the Pentagon and the White House, who had themselves been critical of earlier negligence in high places.

Last month, the Pentagon and Central Intelligence Agency asked former Senator Warren Rudman to "find the facts" on chemical weapons exposure after both institutions came under fire from a panel set up by President Clinton. "I think we need more

evidence... and we will look very closely at the GAO report," Mr Cohen said while on his Gulf tour, adding he himself was critical of the Pentagon's record.

Bickering between the Pentagon and CIA, during which both agencies have changed their story, focuses on who was to blame for failing to warn US commanders of the likely presence of poison gas at Iraq's Khamsiyah facility, destroyed by US troops in March 1991.

The CIA has been forced to

concede it did a poor job of processing data about Khamsiyah: the Pentagon has been forced to abandon its earlier claims that virtually ruled out chemical weapons exposure among US troops.

The American Legion, which has championed the sick veterans' cause, said the focus on chemical weapons could be a red herring. More work was needed on the effect of oil well fires and vaccines given to US troops to ward off poison gas effects.

Mr Cohen has used his Gulf tour to reiterate the US administration's policy of "dual containment": hemming in Iraq and Iran and preventing them regaining economic or military strength. A Saudi suspect in a bomb attack on US servicemen in Saudi Arabia is expected to be extradited from Canada to the US this week, refocusing attention on US threats to punish Iran if found to have been involved.

Even some of the strongest advocates of tough US action

against Iran are urging the administration to give President-elect Mohammad Khatami a chance to prove his reputation for moderation. Mr Cohen, citing the testing of anti-ship missiles, accused Iran of continued interest in obstructing commerce and intimidating neighbours.

He was careful to leave the administration the option to reward more moderate behaviour by Iran, or take action if a "smoking gun" is found in the bombing investigation.

Mexico to repay \$6bn sovereign notes

By Leslie Crawford in Mexico City

Mexico yesterday announced it would repay, ahead of schedule, \$6bn of sovereign notes that fell due over the next three years, in a further indication of its success in tapping cheaper, longer-term finance in the international capital markets.

The \$6bn floating rate notes were issued in August last year to clear Mexico's peso crisis debts to the US Treasury ahead of President Ernesto Zedillo's first state visit to Washington. The notes were backed by Mexican oil exports.

Since the start of the year, however, Mexico has taken advantage of a benign international environment to refinance foreign obligations on more favourable terms.

It has raised \$500m of five-year bonds in Japan, \$290m of 20-year bonds in Italy, and \$490m of five-year sterling bonds in the UK, as well as a \$200m syndicated bank credit which will be repaid over seven years.

Other capital market operations have raised \$930m.

Foreign capital flows have been so strong that the Bank of Mexico added \$3.5bn to international reserves in the first five months of the year. In January, the cautious central bank had estimated that international reserves would rise by only \$2.5bn for the whole of the year.

Mr Martin Werner, deputy finance minister, said the \$6bn floating rate notes would be repaid in full on August 6 with the monies obtained so far this year and an additional \$2bn to be raised in the coming weeks. Mexico yesterday launched a \$1bn five-year bond which is expected to be priced over the coming days.

"The pre-payment of the notes is a crucial transaction for us," Mr Werner said.

"They represented the most expensive amortisation we faced over the next three years. The payment also liberates the oil export earnings which were tied up as collateral."

Mr Werner said the refinancing operations would reduce debt repayments on the market portion of Mexico's foreign debt to an average of \$935m between 1998 and 2000, against the \$30bn it paid during the financial crisis of 1995. The figure excludes payments to multilateral institutions such as the World Bank, the Inter-American Development Bank and the International Monetary Fund.

In the first quarter of 1997, the cost of servicing Mexico's \$93bn public foreign debt totalled \$11.3bn.

Mexico still owes the IMF \$9bn of the emergency funds it received in 1995 to stave off default. Finance ministry officials say the debt will be repaid over a number of years.

Aggressive marketing is bringing a new professional league to America's TV. Tracy Corrigan reports



Star promotions: Lisa Leslie of the Los Angeles Sparks (left) and Rebecca Lobo of New York's Liberty, both in the Women's National Basketball Association

Women's basketball seen as next commercial sport

The 60m Americans who watched last week's National Basketball Association finals between the Chicago Bulls and the Utah Jazz - the biggest television audience in the league's history - were also treated to an aggressive marketing campaign. In the frequent breaks of play, glossy shots of long-legged women ducking and weaving touted the start of a new professional women's league on Saturday.

The Women's National Basketball Association, or WNBA, is the latest attempt to give women a commercially successful league of their own, and it has the marketing might and financial muscle of the NBA, the big men's league, behind it. Although the amounts of money involved are still small, this is the first time that the launch of a women's league has been greeted with the hype and fanfare normally reserved for men's sports or Hollywood movies.

"It is well financed, well thought-out and well sponsored," according to Mr Dick Friedman, a basketball specialist at Sports Illustrated, the US sports magazine. "If it fails, it's a really bad sign" for professional women's sport.

There are 12 big sponsors so far, including Nike, General Motors and Lee Jeans.

in deals worth as much as \$10m each over three years, according to industry sources. Most sponsorships involve a product tie-in - for example, Coca-Cola's POWERade is the league's official sports drink of the WNBA.

Mr Scott Jacobson, a Coca-Cola spokesperson admits that the women's game is "kind of an unknown... This is an example of what happens when you have a good marketing relationship."

Unusually, all the television advertising is being sold to the sponsors, "because we could charge a premium to those who will have promotional rights," said Mr Rick Weltz, chief marketing officer at the NBA.

The WNBA is not the first try its hand at a professional women's league in one of America's favourite team sports. In fact, another women's league, the American Basketball League, has just finished its first season and secured fresh venture capital. But the ABL has focused on small, secondary markets such as Richmond, Virginia and Columbus, Ohio, where sports fans do not have the opportunity to attend the top men's games. Still, its first season, which ran concurrently with the men's, exceeded expectations, with average crowds by the end of the season above 4,000.

According to their own surveys, approximately two-thirds of ABL fans are women.

The WNBA, on the other hand, is trying to take advantage of a summer lull in US team sports. Its season will run for 10 weeks, when its only competition is baseball. And it has secured national television coverage on three stations, designed to net different target audiences - the mainstream NBC network, Lifetime, a women's channel and ESPN, a specialist sports channel.

"We think the overriding factor will be exposure on national television. When we looked at the sports television calendar, we quickly came to the conclusion that the best opportunity was (the summer)," said the NBA's Mr Weltz.

To some Americans, though, the summer season labels the league as a minority or "alternative" interest. "They are treating it in a whimsical way by putting it on in the summer months," says Mr Harvey Araton, the New York Times sports columnist. But, he admits, it makes business sense.

"The only time they could get prime-time space was in the summer months. They've used all of their marketing might and influence with television partners

to get what amounts to pretty good exposure for a new, unproven venture."

Beyond heavy marketing, though, the WNBA has to capture the public imagination. The men's professional game languished for years until the intense rivalry between a black player, Magic Johnson, and a white player, Larry Bird, gripped the nation in the early 1980s. Both had come out of the college basketball circuit.

The WNBA marketers are hoping that a similar dynamic will help boost the women's game. The growing popularity of women's college basketball has provided a fresh impetus for the women's game.

Two years ago, the University of Connecticut had a dream season which caught the attention of sports fans, and aroused interest in players such as Rebecca Lobo, the Olympic gold medalist who will play for the WNBA's New York Liberty team.

For the moment, the gap between the men's and women's game remains vast. In the NBA, which had revenues of \$1.3bn this season, the average player now earns around \$2m for a 82 game season, according to the NBA. No woman in the WNBA will earn more than \$50,000 for 26 games.

Tobacco groups face healthcare order from British Columbia

Government expects to pass law before autumn to make it easier to sue companies if they refuse to contribute to costs

By Scott Morrison in Vancouver

British Columbia has demanded that tobacco companies help to pay for healthcare costs incurred by smokers or risk facing what would be the first provincial lawsuit against the industry in Canada.

Adding weight to its threat, the province has introduced legislation, expected to be passed before autumn, that would make it easier to sue the companies. The legislation would enable the government to launch a class-action suit on behalf of individuals and it would reduce the burden of proof required in such a suit.

The province appears to be following the lead of at least 30 US states that have launched lawsuits against tobacco companies. "The states' attorney-generals are now in negotiations with industry representa-

tives to reach a settlement. British Columbia, however, is trying to settle with the industry before launching a lawsuit, which could take at least one year to reach the courts.

The government has not specified the amount it is seeking from cigarette companies, but said tobacco-related illnesses cost the province C\$500m (\$362m) in healthcare costs every year. Smoking killed an estimated 5,800 British Columbia residents and 40,000 people across Canada last year.

The campaign is likely to be the first of several attempts by provincial governments to wrest money from the industry. At least five other Canadian provinces have been considering legal action against tobacco companies and could soon follow suit. The provinces appear to have a much sounder basis for suing than their US counterparts. While

US states contribute substantially to the federal Medicaid assistance program, each provincial government operates its own health insurance plan and extensive publicly-funded healthcare system.

The prospect of a massive campaign against cigarette companies appeared to concern industry leaders, who denounced the initiative as a tax grab. Mr Robert Parker, president of the Canadian Tobacco Manufacturers' Council, said anti-tobacco bills would be resisted by all legal means.

Mr Parker said governments were the biggest tobacco merchants of all, and claimed that British Columbia netted C\$500m in tobacco taxes last year.

BC's lawsuit threat was accompanied by demands that tobacco companies stop targeting minors and reveal all they know about the health effects of tobacco.

Threat to food safety standards

By Nancy Dunne in Washington

International harmonisation of food standards could lead to lower US food safety standards and require imports of foods now banned by Washington, according to a report by the Washington-based Centre for Science in the Public Interest.

The most immediate threats to US food supply, the report says, are rules under consideration by the Codex Alimentarius Commission, a subsidiary of the UN's Food and Agriculture Organisation. Most Codex standards are lower than those of the US and many other industrialised countries, and industry trade groups have been able to

influence its rule-making. The US could be forced to abide by Codex standards if its tougher regime is successfully challenged in the World Trade Organisation.

This could lead to the US importing unpasteurised dairy products, unsafe meat, unlabelled bottled water,

and foods containing dangerous additives or lead, the report says.

The US is by no means the leader in every area of food safety and consumer protection, and harmonisation could force the US to raise

some standards. A proposal put forward by Canada - and opposed by the US - to list hazardous herbal products creates an opportunity to shield the American public in an area where US regulators have not acted.

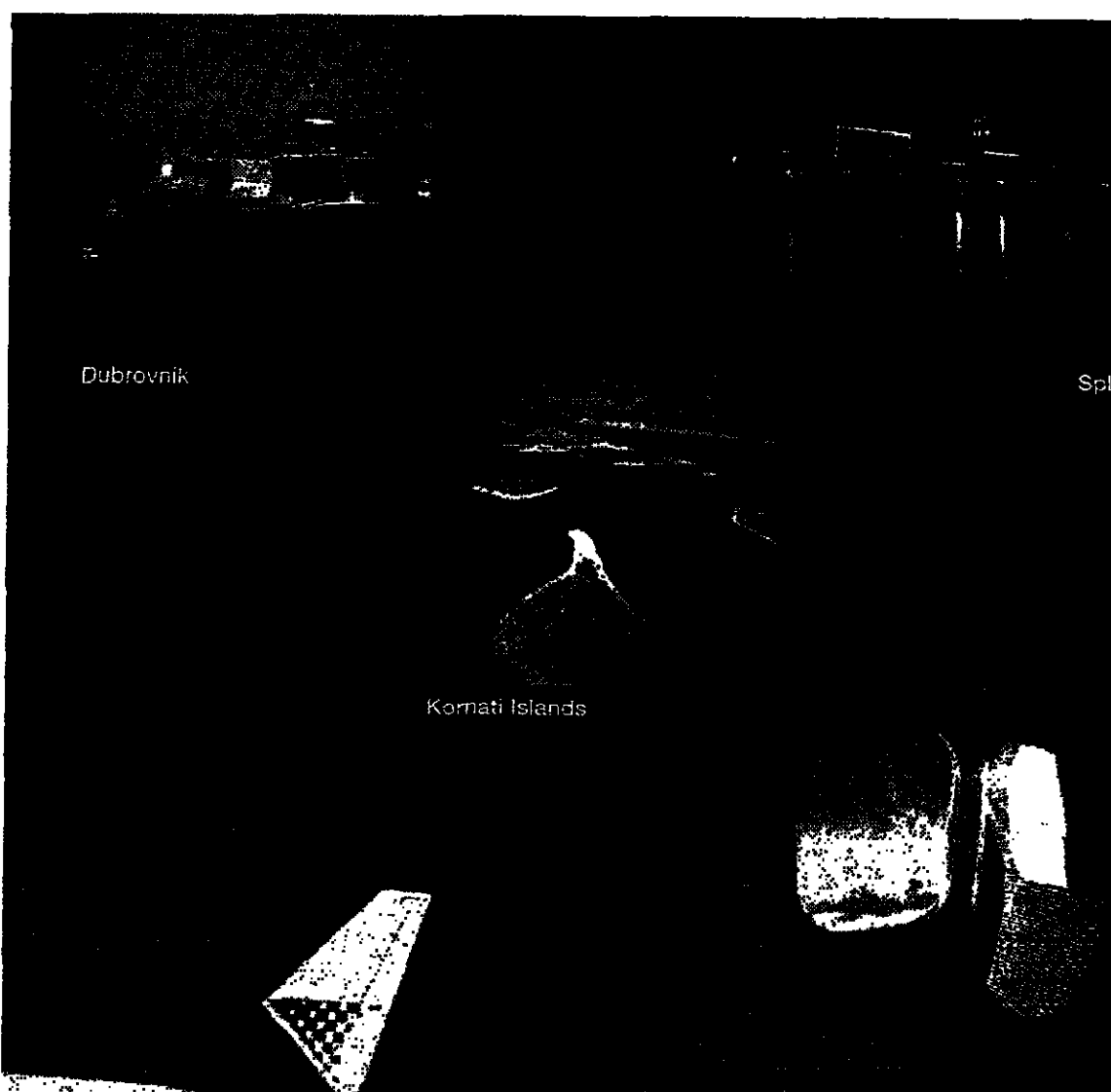
The report notes that representatives of the Food and

Drug Administration to the Codex Committee on Nutrition and Foods for Special Dietary Use had "inexplicably" failed to take advantage of this opportunity to protect the US public from such harmful herbs as ephedra, chaparral, and comfrey.

"It is noteworthy that the US delegation to the Codex committee meeting did contain numerous observers from US trade associations and pressure groups representing the viewpoint of the dietary supplement industry, but did not contain a single observer from any US consumer protection organisation," it said.

The report recommends that, since Codex standards have "legal significance" in the US, Washington no longer agrees any new Codex standards that are weaker than US regulations.

It also should instruct US delegations to fight against new agenda items which might weaken US regulatory requirements.



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NEWS: UK

Electronics groups attack government proposals for regulating encryption

Code-breaking plan condemned

By Alan Cane

UK and US electronics companies have condemned UK government proposals that would enable security services to decipher coded electronic messages from terrorists and drug barons as "unworkable, uneeded and frankly unacceptable".

They are concerned that measures to trap wrongdoers could lead to substantial difficulties and extra expense for people legitimately using coding techniques - which means everybody from banks to individuals sending confidential messages over the internet.

In a harsh response to a consultative paper put forward by the Department of Trade and Industry in March, the Business Software Alliance and the British Interactive Media Association warn the proposals could stifle innovation by spreading the regulatory net far wider than reasonable.

Mr Evan Cox, European Counsel to the BSA which represents most of the world's large software houses including Lotus Development, Microsoft and Novell, said: "The DTI's proposals could cripple the growth of electronic commerce in the UK."

Mr Sean Nye, an executive member of BIMA which has more than 200 members including Bates Dorland, Futurmedia, Sahara, Philips and Sony, said: "In an age where personal data and information is increasingly threatened with unwanted and unwarranted exposure, the DTI's proposals are a major step backwards."

The row is over encryption, a way of encoding electronic messages travelling over computer networks so they cannot be read by anybody other than the intended recipient. Governments world-wide are concerned that their security agencies

are not able easily to decipher coded transmissions from large-scale criminal organisations.

In the US, there is controversy over government plans to allow only encryption methods to which the security agencies hold the key.

The DTI proposal envisaged the UK adopting a mandatory licensing scheme for "trusted third parties", companies to whom encryption users would be willing to entrust a copy of the key to their encryption methods.

In the case of suspected wrongdoing, the police or other agencies would be able

to obtain a warrant giving them access to the key and enabling them to read the suspect transmissions.

The BSA and BIMA point out that under the proposals all organisations wanting to offer encryption services in the UK would have to be licensed. They say that criminals would avoid the DTI scheme leaving honest suppliers and customers paying for a costly and inflexible system.

The attitude of the UK's new Labour government to encryption is not yet known. The party's election manifesto favoured a voluntary scheme.

Former chancellor scores in leadership struggle

By John Kampfner in London

The Conservative leadership was on a knife edge last night after Mr Kenneth Clarke, chancellor of the exchequer in the last government, surprisingly clung to his lead in the second ballot among the party's parliamentary members over Mr William Hague, the former secretary for Wales.

Attention before tomorrow's final round was focused on Mr John Redwood, a former challenger for the Conservative leadership, who was eliminated on coming third, with 38 votes to Mr Clarke's 64 and Mr Hague's 62.

Mr Redwood's team was meeting last night to determine whether to transfer their allegiance to Mr Clarke, their ideological opposite, or Mr Hague, with whom personal relations are particularly difficult.

Opinion among the Redwood camp of predominantly arch rightwingers and Eurosceptics was split. Some claimed that Mr Clarke's call for an inclusive approach, incorporating all strands of opinion, might win them over.

With both teams urgently trying to win him round, Mr Redwood suggested he had yet to make up his mind.

Although Mr Hague was installed as odds-on favourite by bookmakers, his supporters acknowledged disappointment and surprise that he had not taken the lead.

It appeared that Mr Hague's statement on Monday night that prospective shadow cabinet members would have to support his line on Europe had antagonised some voters.

"Early in the contest it was 'anyone but Ken'," said a former minister. "Now we've been so alarmed by Hague that it's anyone but William."

One of the more incongruous likely converts to the Clarke cause was Mrs Teresa Gorman, one of the original Maastricht treaty rebels. "Kenneth Clarke is a big hitter in terms of parliamentary activity," she said. "William Hague doesn't have any clear view about anything except that he wants to be all things to all people."

A jubilant Mr Clarke said after the results were announced: "I am the first choice of Conservative MPs and I have the overwhelming support of both the general public and Conservative party members."

He added, in a clear rebuff to Mr Hague's more disciplinary approach: "I will put together a broad-based team drawing on every strand of opinion within the party."

Mr Clarke's aides said he would spend the next 36 hours in one-to-one chats with waverers. They felt that support for Mr Hague was "peeling off".

UK NEWS DIGEST

Peace moves stepped up

The British government yesterday stepped up its efforts to prevent bloodshed when the Northern Ireland Protestant marching season reaches its peak in three weeks' time.

Ms Mo Mowlam, Northern Ireland secretary, held talks with nationalist residents in Portadown, five miles from the site of Monday's murder of two policemen by the Irish Republican Army in Lurgan, Co Antrim.

The UK and Irish governments said Monday's killing of the Royal Ulster Constabulary officers - for which a man was being questioned yesterday - was designed to heighten tensions in the run-up to the marches. One Ulster Unionist MP described the situation across the province as a "powder keg".

Ms Mowlam indicated that, although there was little sign of agreement with the Catholic residents in Portadown, discussions with them would continue.

Mr Tony Blair, the prime minister, announced on Monday that the government had suspended official contacts with Sinn Féin, the IRA's political wing, following the murders.

John Kampfner, London Editorial Comment, Page 11

LONDON PROPERTY

City bonuses 'fuel 25% price rise'

Prime residential property prices in London rose 25 per cent over the past year, fuelled by an upturn in domestic demand and as a result of City bonuses, a new study shows.

According to research by Knight Frank, the property consultants, prime London house prices rose 13.6 per cent in the half-year to June alone, substantially outperforming other parts of the country. Two-thirds of purchases over the past six months have been by UK buyers compared with 38 per cent in the previous six months, with a large proportion coming from the City.

Foreign purchasers have come mainly from the Middle East, continental Europe and the Far East, with the latter often resulting from property exhibitions in Hong Kong and Singapore. Ms Lorna Vestey, partner at Knight Frank, said demand remained very strong but growth should slow.

Mark Suzman, London

BORROWING FIGURES

\$11bn boost for government

The government could cut £7bn (\$11.4bn) off its deficit this year as the state of public finances is continuing to improve, according to the latest borrowing figures released yesterday.

Government borrowing is 35 per cent lower this financial year compared with 1996, thanks in part to a fall in spending by government departments. Departmental spending was 1 per cent lower last month than the same month last year. May was also the third month in a row that departmental spending has fallen year-on-year.

The Treasury said the difference between government spending and tax income in May was £3.95bn, higher than forecast and above April's deficit of only £76m and £3.2bn in the same month last year.

Analysts at HSBC bank in London said the underlying public sector borrowing requirement (PSBR) this year was already £3bn below last year's figure. Mr Jonathan Loyne, UK economist at HSBC, said: "The prospects for a hefty undershoot of this year's official PSBR forecast of £19bn remain very good."

Richard Adams, London

INSURANCE

General profit lowest since 1993

UK insurance companies made a general trading profit on their worldwide businesses of £30m (\$48.9m), or 0.8 per cent of premium, in 1996 - the smallest since 1993 and nearly 30 per cent down on the 1995 figure of £4.3bn.

But the figures, from the Association of British Insurers, also show that worldwide net long term premium income from pensions and life business rose 18 per cent in 1996 to a record £66.4bn. The figures confirm recent market trends.

Mr Mark Boléat, director general of the association, said: "After four years of improving trading results both in absolute terms and as a percentage of premiums, 1996 looks to be the turning point in the infamous insurance cycle." He said that to maintain profits premiums would have to rise or there would need to be a reversal in the recent upward trend in claims.

Underwriting losses in 1996 were £1.86bn, compared with £2.24m in 1995. In the UK, losses on motor underwriting jumped from £20m to £633m as a result of more claims and lower premiums.

Jim Kelly, London

RETAIL CLOTHING

Museum in lingerie design deal

The Victoria & Albert, the decorative arts and design museum in Kensington, London, is stretching its brand into underwear sold by Marks and Spencer, the UK's largest clothing retailer.

Seventeen flagship M&S stores in the UK and continental Europe will stock the lingerie as part of a V&A collection of clothes and toiletries from August this year. The initiative is aimed particularly at the tourist market, and is an extension of the programme of licensing goods to bear the V&A brand already run by V&A Enterprises, the museum's commercial arm, which has a turnover of £90m (£146.70m). The arrangement with M&S is through Coats Viyella, which is one of the store's main suppliers and one of the V&A's licensees.

Alison Smith, London

Microsoft in \$98m boost for high-tech

By Nicholas Denton

Microsoft, the US computer software giant, plans to invest a total of \$98m (\$98m) in a boost for the high-tech sector in the Cambridge area, 30km north of London. The investment consists of £10m in small high-tech companies and £50m to build a new computer science research laboratory in association with the university.

The company yesterday confirmed plans for its first research centre outside the US, and said it would seek through venture investments to profit from the innovation it stimulated.

"We think that our lab is going to stimulate a lot of entrepreneurial activity in Cambridge, and why shouldn't we benefit from that?" said Mr Nathan Myhrvold, chief technology officer and a close adviser to Mr Bill Gates, founder and chairman of Microsoft.

Microsoft will invest £5m in Amadeus I, a new venture

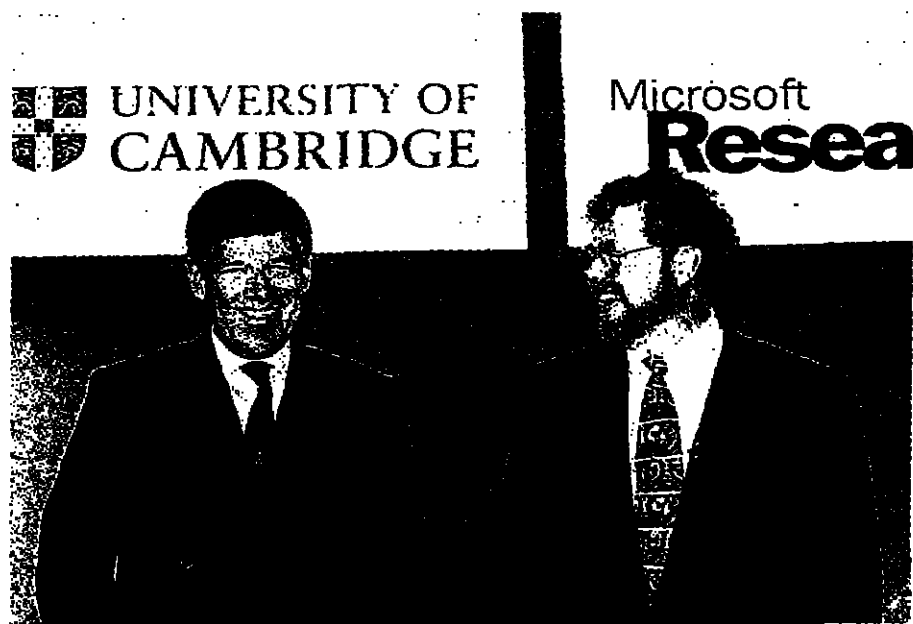
capital fund supported by Mr Hermann Hauser, founder of UK companies such as Acorn Computer and Advanced Research Machines. It will also back individual start-ups.

Venture capital investing, undertaken by computer companies such as Intel and Adobe Systems to stimulate demand for their products, is a new departure for Microsoft, which typically takes control of companies in which it invests.

Microsoft, while not altering its policy, believes it can encourage in Cambridge the interaction of scientists and entrepreneurs that exists around US universities such as Stanford.

"Entrepreneurial fever only makes Cambridge a more attractive place," said Mr Myhrvold. "We are betting on Cambridge, both in investing £50m in the research centre and investing £10m in new ventures."

The support for UK high-tech start-ups was disclosed



Prof Alec Broers, vice chancellor of Cambridge University (left), and Nathan Myhrvold of Microsoft at the London press conference to announce the US company's investment

as Microsoft said the basic research lab it planned in Cambridge would receive about £50m over five years and employ about 40 research professionals.

Meanwhile, Hitachi, the Japanese electronics company, yesterday announced a communications technology project which will take to £10m their total research spending in collaboration with Cambridge University.

Microsoft's research in Cambridge is expected to

focus on aspects of computer science such as the cataloguing, indexing and retrieval of digital content such as pictures and text.

The UK-based lab, which will allow Microsoft to tap scientists from European Union countries without confronting US immigration rules, may be followed by other regional centres.

"It is very difficult to be successful if you scatter yourself too thin," said Mr Myhrvold. "But developing

parts of the world offer many opportunities. It would be foolish for us to ignore that."

The Cambridge centre will represent about a tenth of Microsoft's fundamental research effort. The number of computer scientists and engineers engaged is forecast to grow from 200 to 600 in the next few years.

Microsoft's spending on basic research represents about 1 per cent of its development spending.

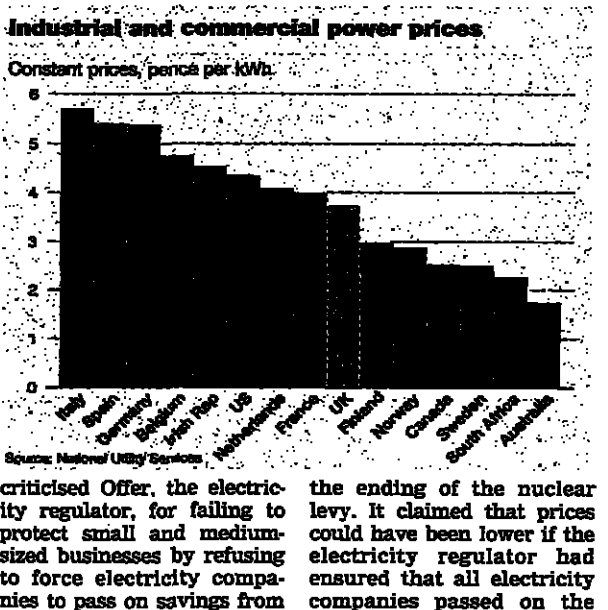
Electricity prices fall 7.4% in year

By Simon Holberton

Electricity prices in Britain fell by 7.4 per cent in the year to April 1997 - the steepest decline since privatisation. It enabled the UK to improve its relative position in the world, moving from seventh to sixth cheapest in a group of 15 countries.

The figures, produced by National Utility Services, a business consultancy, showed that Italy - where prices rose 5 per cent to 5.73p/kWh - had the most expensive electricity. Australia - where the newly deregulated markets have seen prices fall by 40 per cent - comes out with the lowest electricity prices of just 1.76p/kWh. The price in the UK was 3.75p/kWh.

National Utility, however,



effects of a reduction in the nuclear levy to 2.2 per cent of household bills from 10 per cent a year earlier.

Mr Andrew Johns, National Utility director, said: "Offer is failing to protect consumers' interest by not becoming involved in this issue. It remains to be seen whether the government will intervene and force the regulator to take a more active role."

Certain electricity companies were taking unfair advantage of companies by refusing to lower their prices to reflect a reduction in the levy on bills, said National Utility. The companies argue that contractual terms and conditions allow them to keep the additional income.

The National Utility criticism is likely to be of concern to Mr John Battle, the energy minister, who has said that he wants consumer protection put at the heart of utilities' regulation in Britain.

National Utility said that the main reasons for the fall in consumer electricity prices were the two-stage reduction in the nuclear levy, a restructuring in costs of electricity transportation, and further regulated reductions in the profits of electricity companies. The combined effect of these changes masked a 2.6 per cent rise in generation.

Over the last 12 months, the wholesale electricity market has appeared less risky than usual. Prices did not fluctuate as widely between summer and winter as in previous years.

Oxford academics back \$73m business school

By Richard Wolfe

Oxford dons [senior academics] yesterday voted overwhelmingly to back the university's controversial plans for a \$73m (\$73.35m) business school, largely funded by Mr Waheed Said, the Saudi entrepreneur.

The vote clears the way for Oxford to fulfil a seven-year dream of competing with the world's best business schools with an expansion of management studies in a flagship building. After a tense debate in the university's congregation, or

parliament, dons approved revised plans by 342 votes to 55.

Opponents of the business school had objected to Mr Said's donation on the grounds that it would seriously undermine academic freedom. They particularly opposed the power of the business school's foundation to veto the appointment of the school's director of studies.

Mr Said and his trustees will take four seats on the foundation, equal to the university, with two independent businessmen holding the balance of power.

Original plans to site the school on greenfield land were decisively rejected in November, in a surprise blow to Oxford's executive leaders and the university's fund-raising campaign. The new plans site the school on a car park opposite Oxford railway station.

Mr Said said: "I am delighted that the congregation has united behind the new site. It is a great opportunity to create a world-class business school that draws on Oxford's finest traditions of academic excellence and rigour."

"Oxford has traditionally helped to fill the senior ranks of politics, the professions and science. I hope that in the coming generation it will also provide the brightest and the best of business to the benefit of the university, city and the country."

Professor John Finnis, professor of law and legal philosophy, said: "We are faced with an obvious dilemma. Either business studies are a sham academic affair, so the normal principles of academic autonomy do not apply. Or the

alternative is that this university no longer upholds the principles and practice of academic autonomy."

The university argued that the independent trustees would counter Mr Said's influence on the school.

It added that Oxford could not afford to reject his donation of £20m a second time, and that a negative vote would discourage further donations.

Observer, Page 11

Private sector looks for underground profit

There is international interest in the possible sell-off of London's ageing Tube network, says Charles Batchelor

London Underground's crumbling tunnels and regularly "out of order" escalators might be expected to deter all but the most foolhardy or optimistic of investors.

But the privatisation of the bus industry in the mid-1980s, the break-up of British Rail over the past two years and private sector involvement in other urban light rail networks has created a deep pool of potential bidders for a possible sell-off.

International interest could come from south east Asian operators of mass transit and light rail networks with extensive experience of taking advantage of commercial property and other private sector investment opportunities alongside public sector transport systems.

French companies also have invested heavily in former public-owned British utilities including commuter rail franchises.

"Several private sector companies have said they see this as an opportunity," says Mr Peter Ford, chairman of London Transport. The approaches have come from companies in the rail, civil engineering, rail equipment and financial sectors.

In spite of a £1.35bn (£2.03bn) backlog of investment spending, which has led to increasingly frequent breakdowns on the Tube network, the system's operating performance has been improving. The operating surplus earned in the year ended last March rose "substantially" on the £192m surplus for 1996-96, and a record 2bn passengers were carried. Mr Ford is to unveil the 1996-97 figures tomorrow.

However, after depreciation and spending on the renewal of fixed assets, the Tube made an operating loss of £212m in 1996-96. Although this was lower than the £308m recorded a year earlier, the Underground remains heavily dependent on government grants. These amounted to £90m last year but are set to fall to £150m in 1998-2000.

The figure on which critics of privatisation are likely to focus is the gap between the proceeds of any sale and the value of assets being sold.

The former Conservative government calculated that a sale could realise between £600m and £1.2bn. The Tube puts a value of £72m on its trains and infrastructure after depreciation. Many systems will

have to be upgraded to make the Tube attractive to travellers.

"A buyer would have to calculate carefully the liabilities and know what he would have to spend," says Mr Wyn Ellis, analyst at SBC Warburg. "But if the quality and reliability of the system can be improved, there must be a lot of scope for increasing passenger numbers."

The level of private sector interest would depend on precisely how the new Labour government decided to sell the Tube. It could remain an integrated system, with the buyer taking over the infrastructure - track, tunnels, stations and electrical systems - as well as running the trains. Or, like the overground rail network, the two

could be split. The apparent urgency of Labour's plans, revealed in documents left by Mr John Prescott, deputy prime minister, in a BBC television studio, has surprised transport groups and the City.

The bus, coach and shipping companies that have already taken over rail franchises would be strong candidates as buyers, although none has experience of managing infrastructure. With growth in the domestic bus sector slowing, companies such as Stagecoach, FirstBus and National Express, the coach group, are expected to consider the Tube closely.

Several of the transport companies that acquired London commuter rail franchises, including Connex of France, or bought parts of the formerly publicly-owned London Buses network, could face competition issues.

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Television/Christopher Dunkley

Cheap, but no chutzpah

There is no sense in complaining that a Mini is not as good as an Aston Martin; given the difference in price, that is inevitable.

Similarly with Channel 5: given that the money spent on programmes is only a fraction of that spent by ITV, Channel 4 and the BBC networks, you cannot expect it to perform in the same way. However, the Mini is widely admired for being good at what it was designed for, and it seems reasonable to ask whether the same goes for Channel 5. You might doubt it, given that its average audience share during its first 10 weeks has been 2.6 per cent (though according to the most recent BARB figures the new channel is now managing nearly half as much again, having leaped up to a 3.7 per cent share).

Spend a week concentrating on C5, and you find any programmes which compare favourably with what we are used to on the four old terrestrial channels? Yes. Two. Every week night at 7.30, C5 shows a half-hour wildlife programme. Most look very familiar: lions crunching their bloody way through an antelope, sea eagles snatching fish out of the water, and so on. No doubt it is a shame that we have become so blasé about such technically astonishing stuff, but we have. Blame David Attenborough or Anglia's *Survival*, but

with most of these C5 programmes you yawn and say "Yes, yes, we know how hyenas/springboks/elephants behave". Last week there was one edition, "How Green is My Quarry", which was strikingly different. It showed how, in seven years, a huge quarry which, after being excavated by a cement works looked like the surface of the moon, was transformed into a wonderful green nature reserve stuffed with fish, weaver birds, heron, and much more. It made a fascinating and heartening 30 minutes.

Then, early on Sunday evening, *What's The Story* proved to be one of the best attempts for years (and there have been many) at a current affairs magazine programme. Among this week's topics were the buying of London property by Hong Kong Chinese who, it seems, are snapping up new Thameside flats before they are off the drawing board, sometimes using a Feng Shui guide to advise on the best investments; the row over attempts to legislate for different types of rape; and the odd story of a charity

set up by singer Michael Jackson which seems to have given remarkably little of its income to the supposed beneficiaries.

The rest of the week's viewing was a depressing experience because there appeared to be such a dearth of original thinking. C5 seems intent upon following all the most trite and tiresome trends already pursued by others. Channel 4 shows huge quantities of American sport, so C5 does the same; and for some reason (covering the more frequent American commercials?) American sport necessitates even more of that smart-aleck studio chat than usual. But then studio chat must constitute one of the largest elements in the Channel 5 output. *Turnstyle* is a studio chat show about sport. Every evening at 7.00 there is a half-hour programme of showbiz chat in which a male and a female presenter, with a high stool and a fixed smile apiece, introduce clips from forthcoming movies (free puffs, in other words, consisting of the sort of high-budget footage which C5

cannot afford to produce) interspersed with gossip column tiffins. This is not the only C5 programme which resorts to reading out headlines and stories from tabloid newspapers, a pitiful form of parasitism.

The channel's American content is high, though probably not higher than C4's, but while C4 shows some of the best programmes produced in the US, those on C5 tend to be tacky. *Fame And Fortune* looks like a "Hello!" magazine of the air. Last week it followed Linda Gray, faded star of *Dallas*, as she went on African safari - immediately after a programme all about African wildlife. UFO on Sunday was a "documentary" about the American search for alien abduction, which was treated as though it were as real as a railway engine. Barmy tales of Martian kidnapping were intercut with fanciful shots of little grey men with black almond eyes at a level only just above the subliminal. Saturday's 10.50 pm movie (the second of four shown nose-to-tail between 9.00 pm and 3.55 am) was the unpleasantly

violent and critically slated *Vigilante Force*.

Family Affairs, the soap opera shown at 6.30 Monday to Friday with a two-hour omnibus on Sundays, makes *Coronation Street* look like the pinnacle of sophistication. The set piece units (marital row, grandson/grandfather bonding, pub row) are so mechanical, stilted and lacking in humour that the whole thing feels remarkably like Victoria Wood's magnificent soap satire, *Acorn Antiques*. As with the new cable channels which can stay in business only by cutting budgets not to a half or a third of those at the old terrestrial networks but to a 10th or a 20th and sometimes less, C5 includes plenty of quizzes and game shows in its schedules.

Woufagooey is yet another quiz about pop music and modern lowbrow culture: what was the name of Dick Emery's female character who said "Ooh, you are awful but I like you"? One of the six contestants - clearly a round peg in a round hole - knew the

answer was Mandy. But how many of the seven participants in this programme could viewers identify? I knew Hank Marvin from The Shadows and recognised another as a self-proclaimed lesbian stand-up comedian whom I had seen on a late night cable show. The rest were ciphers. *Whistle* is a general knowledge quiz played each week day at 6.00 pm in which a large number of competitors is whittled down by such posers as "Which has most legs: three spiders, two fish, six men or a mouse?" one woman opted for two fish. Two thought Bob Dylan's real name was Dylan Thomas. *Tips And Fibs* is a late night "medical" quiz chaired by Tony Slattery, whose manner puts you in mind of Murray Walker on uppers.

It is hard to detect what those at C5 might think its Unique Selling Proposition could be. Most of what we already had elsewhere, the only difference being the stripping and stranding of the schedule. That ensures that you get the same sort of thing at the same sort of time each day. But does rubbish become more attractive just because you know you can see it every day at a particular time? A week's viewing suggests that much of what C5 is screening is not only cheap, but cheap and nasty: not only not an Aston Martin, but lacking the charm and chutzpah of a Mini, too.

Theatre

Matters of life and death

Death in the title equals death at the box office, or so the Hollywood financiers predicted of *Four Weddings and A Funeral*. Ben Brown steers clear of the problem with his first full-length play, the gently amusing *All Things Considered*. You would never guess that the lightly punning title actually refers, in part, to the various ways in which the central character spends the entire play trying to commit suicide.

David Freeman (Christopher Godwin), a 50-year-old, divorced, childless philosophy professor regards his work as complete, and has taken the entirely logical decision to end his life. The trouble is, he keeps being interrupted. It is a great set-up and Brown builds tension nicely as a constant stream of friends and acquaintances turn up for help with their increasingly ludicrous private matters of life and death.

Unfortunately, there is a peculiarly second-hand feel to the device. Simon Grays's *Otherwise Engaged* concerns a man's attempt to spend an evening listening to *Parsifal* only to be interrupted by similar trials and tribulations of friends and foes. The plays even share gags of embarrassment about incriminating answering machine messages.

As for the death question, Christopher Hampton's academic tale *The Philanthropist* opens with a spectacular, albeit accidental, suicide. Brown lacks the venom of the former and the dazzling wit of the latter.

Even more pertinently, his play comes garlanded with praise from Alan Ayckbourn, who built the entire second act of his early masterpiece *Absurd Person Singular* around a character whose foiled and increasingly farcical suicide attempts are powerfully funny and painful.

Brown has an impressive command of structure, but that too feels old-fashioned. The action takes place on Michael Holt's tastefully decorated college sitting-room set, into which a motley collection of characters are neatly introduced. But, thriller-style, they all fall too schematically into nicely argued philosophical debates around death. The script elicits far more laughs than you would imagine via misunderstandings, and every now and then you sense the spirit of Joe



Michael Lumsden and Christopher Godwin in 'All Things Considered'

Orton struggling to break through, but Alan Strachan's staid production irons out much of the comedy. It is all too middle-of-the-road, too safe, with the result that the actors struggle (usually in vain) to stop their characterisations descending into stereotype.

Interestingly, it is Freeman, the least willing to pour out his feelings, who is the most successfully realised

character. Susie Blake uses her considerable comic skills to flesh out the love-torn librarian (although even she has to fight against the production, which saddles her with an all-too-obvious tweed skirt and sensible shoes). Michael Lumsden has great charm as a lecherous lecturer, but he is forced to signal his intentions to an absurd degree. Driving the pace harder would

raise the comedy level and release some much needed energy into the proceedings; but for all Brown's promise and carefully plotted surprises, the evening, if not his hero, is killed off by predictability.

David Benedict

Hampstead Theatre, London NW3 until July 5 (0171-722 9301)

Theatre

Love triangle goes into overdrive

Cameron's *The Mortal Ash*; he slowly weaves moods, allows silences and implications their head and trusts in the play and well-pitched performances to develop matters at a natural pace.

Unfortunately, in the second half Coxon gives things not so much a little push as a series of hefty shoves.

During and after the central event, the annual dedication of a decorative cover for a local well (beautifully dressed by Imogen Jenkins), we are served up on a platter everything previously only hinted at: a love triangle which operates in all three directions, a cross-generational attachment, frustrated

homosexuality of both flavours, infanticide and the sudden acquisition by just about everyone of a mastery of metaphysical metaphors.

Incidents and tensions are treated with an explicitness entirely at odds with the foregoing. Where previously the characters had seemed somewhat at sea in their lives, now it is the actors who must grope for a plausible through line.

They generally continue in more or less the same register which, as a result, varies from nigglingly to wildly inappropriate - the most severe victim being Hazlegrove, who has somehow to engineer a transition in Mary from a kind of hysterical autism to cool, eloquent emotional manipulation.

True, the seeds of all these developments have been sown in the first half, but the fruits they bear are of huge and misshapen proportions for such a diminutive dramatic field.

Ian Shuttleworth

At the Bush Theatre, London W12, until July 5 (0181 743 3388).

An all-women line-up for the Turner Prize

As predicted, this year's Turner Prize short list is indeed all women but not perhaps the women that might have been expected. No Tracey Emin, no Sarah Lucas, those bad girls who have hogged the headlines with their recent solo shows. Not even Cathy de Monchaux, whose current show at the Whitechapel had her hotly tipped as a contender.

Instead, the judges chose Angela Bulloch, 30, a cool conceptualist; Gillian Wearing, 33, who works with video to explore people's secret inner lives; Cornelia Parker, 40, who famously exhibited across Tilda Swinton asleep in a glass case; and Christine Borland, 32, who works with the language of forensic science. It is a

selection which recognises the innovative work of the younger generation while also acknowledging Parker, much admired by her peers but certainly not part of the Young British Artists brat pack.

The judges at the press conference - art critic Marina Vaizey; Penelope Curtis, curator of the Henry Moore Institute, Leeds; and Tate director Nick Serota, who had made the selection along with Jack Wendler from the Patrons of New Art and Lars Nittve, director of the Louisiana Museum in Denmark, were keen to deny any political correctness in the all-woman list. Over the past ten years or so, they said, women's work had come more and more to the fore, and the all-woman list

was merely a reflection of the present state of the art world.

Brave gestures are no longer needed - women, from Agnes Martin and Marina Abramovic to Rachel Whiteread and Sam Taylor Wood, have just carried off the prizes at the Venice Biennale and now will fill the Tate this autumn. That women's contribution to visual art is finally being not just recognised but apparently taken for granted is a breakthrough indeed.

Lynn MacRitchie

The Turner Prize is sponsored by Channel 4. Work by the shortlisted artists will be on show at the Tate from October 29 - January 18 1998.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

DANCE
Koninklijk Theatre Carré
Tel: 31-20 6 211 211
● Sleeping Beauty: choreographed by Mats Ek to music by Tchaikovsky, performed by the Gullberg Ballet (part of the 1997 Holland Festival); Jun 21, 22, 23

EXHIBITION
Stedelijk Museum
Tel: 31-20-5732911
● Around Europe: exhibition to mark the meeting of the European Council in the city this month, featuring work from 15 member states of the European Union. Artists represented include Mondrian, Klein, Baselitz, Picasso, Ernst, Giacometti, Bacon, Chagall, Long, Van Gogh, Léger, Lipetz, Dubuffet and Fontana; to Aug 24

ANTWERP
EXHIBITION
Openluchtmuseum voor Beeldhouwkunst Middelheim
Tel: 31-3-333 3333
● Del vedutismo a las primeras vanguardias: display featuring 40 paintings and four sculptures from the collection of Baroness Carmen Thyssen-Bornemisza, including works by Canaletto, van Gogh, Picasso, Kirchner and Kandinsky; to Jun 30

Tel: 32-3-8281350
● Anthony Caro: retrospective display of work by the British sculptor, whose work has had a great influence on contemporary artists, notably Tony Cragg; to Aug 17

BARCELONA

EXHIBITION
Fundació la Caixa
Tel: 34-3-4588907
● Amelia Peláez, Frida Kahlo, Tarsila do Amaral: exhibition examining the roots of Modernism and contemporary art in South America through the work of the three female artists. 100 works on display establish the similarities and differences between the women, the contact they had with European movements and their own journeys to discover the roots of their countries; to Jul 27

BERLIN

OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● La Nozze di Figaro: by Mozart. Conducted by Stefan Soltesz. Soloists include Lenus Carlson, Margaret Marshall and Flonnuala McCarthy; Jun 21

BILBAO

EXHIBITION
Museo de Bellas Artes
Tel: 34-4-4419536
● Del vedutismo a las primeras vanguardias: display featuring 40 paintings and four sculptures from the collection of Baroness Carmen Thyssen-Bornemisza,

including works by Canaletto, van Gogh, Picasso, Kirchner and Kandinsky; to Jun 30

COLOGNE

CONCERT
Köln Philharmonie
Tel: 49-221-2040820
● Christian Oelze: performance by the soprano, accompanied by the pianist Irvin Gage. The programme includes works by Schubert; Jun 22

EXHIBITION

Museum für Ostasiatische Kunst
Tel: 49-221-8405180
● Reisewege - Reiseziele. Unterwegs im Alten Japan: exhibition examining the history of Japanese people as travellers abroad. From as early as the 17th century Japanese citizens travelled on official missions, for business and pleasure; to Jul 13

DRESDEN

OPERA
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● La Bohème: by Puccini. Conducted by Klaus Peter Selber. Soloists include Birgit Fandrey, Eva Kröhner and Mario Carrara; Jun 19

LONDON

EXHIBITION
Whitechapel Art Gallery
Tel: 44-171-5227888
● Cathy de Monchaux: display of work by the British sculptor; to Jul 27

THEATRE

Cottesloe Theatre
Tel: 44-171-9222252
● Closser: written and directed by Patrick Marber. The cast includes Sally Dexter and Ciaran Hinds; to Jun 28

MADRID

EXHIBITION
Museo Thyssen-Bornemisza
Tel: 34-1-4203944
● George Grosz: exhibition focusing on the years the German Expressionist painter and graphic artist George Grosz (1893-1959) was working in Berlin. The exhibition features some 20 oil paintings, approximately 100 works on paper, notebooks, illustrated books, and other objects; to Sep 14

NEW YORK

EXHIBITION
MOMA - Museum of Modern Art, New York
Tel: 1-212-708-9400
● The Stenberg Brothers: Posters of the Russian Avant-Garde: the first retrospective of the graphic work of Vladimir and Georgii Stenberg, who began designing posters for the burgeoning Russian cinema in the mid-1920s. Their designs combined many aspects of the Constructivist movement with montage techniques borrowed from film; to Sep 2
● Museum of the City of New York Tel: 1-212-634-1672
● New York Gets Married: exhibition celebrating the wide variety of wedding rituals through

the display of clothing, memorabilia, works-on-paper and decorative arts objects; to Sep 21

The Metropolitan Museum of Art
Tel: 1-212-879-5500
● Ivan Albright: Magic Realist: retrospective of work by the American artist, whose style of painting is so exact in its depiction of detail that at times it seems to transcend reality; to Sep 7

JAZZ & BLUES
Avery Fisher Hall
Tel: 1-212-875-5030
● Fina Estop: performance by the Brazilian band, featuring Castano Veloso on vocals and guitar; Jun 21

PARIS

EXHIBITION
Musée Carnavalet
Tel: 33-1-42 72 21 13
● Noursey: exhibition devoted to dancer/choreographer Rudolf Nureyev. The display, which draws upon Nureyev's personal collection, features costumes, posters, photographs, personal belongings - including furniture, paintings and prints - and other objects painting a picture of his artistic and private life; to Jul 27
● Musée du Louvre
Tel: 33-1 40 20 50 50
● Exposition du Centenaire de la Société des Amis du Louvre: display marking a centenary of donations by the Friends of the Louvre, featuring the first work given to the Museum - Baldovini's "Vierge à l'Enfant" - and pieces by de la Tour,

Quarton, Hey, Fouquet and Lieferinx; to Jul 21

PHILADELPHIA

EXHIBITION
Philadelphia Museum of Art
Tel: 1-215-763-8100
● The Hands of Rodin: A Tribute to B. Gerald Cantor: display of 60 sculptures in bronze and plaster; to Jun 22

STUTTGART

EXHIBITION
Staatsgalerie Stuttgart
Tel: 49-711-2124050
● Art Games: exhibition examining the work of the Fluxus movement, founded in 1961 and including Nam June Paik, Kaja Millet, La Monte Young, George Brecht and Yoko Ono among its members. In keeping with the diverse interests of the group, the display features work using a wide range of media; from Jun 22 to Sep 22

VIENNA

CONCERT
Musikverein Tel: 43-1-5058881
● Orchestra of Nations: with conductor Justus Frantz and cellist Rostropovich in works by Smetana, Schubert and Dvorák; Jun 21

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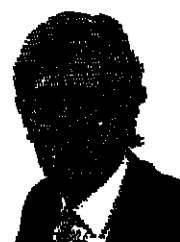
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COMMENT & ANALYSIS



Edward Mortimer

Overkill in Africa

As political failure leads to moral indifference, genocide in Africa no longer sparks world outrage or even attention

Zaire is dead. Long live Congo. The corrupt regime of Mr Mobutu Sese Seko is at last consigned to the dustbin of history. Mr Laurent Kabila, the new president, is the latest recruit to the club of new-style African leaders - tough but enlightened and English-speaking - whose rise has ended the long civil wars in countries stretching from Eritrea to Rwanda.

What is wrong with that widely accepted account of recent central African history? There is the implicit equation of enlightenment with the English language. French policy in Africa has been unenlightened, giving uncritical support to dictators so long as they speak French and are amenable to French influence. English-speaking policymakers and commentators should beware of doing the same.

Unpleasant facts keep coming to light about what Mr Kabila's Tutsi supporters have been doing to Hutus (both Rwandan refugees and native Congolese) during their sweep from the Rwandan border to Kinshasa, Congo's capital, which they reached last month. Perhaps the most detailed and chilling report appeared in the Washington Post.

Mr John Pomfret, the reporter, described how, in mid-April, the inhabitants of a village called Kaseke, urged on by military officers loyal to Mr Kabila, "tore through a camp of refugees, most of them Rwandan Hutus, hacking and spearing men, women and children". Armed Hutus fought them off. But "a day later, Mr Kabila's rebel forces stepped in and, according to survivors and local residents, ravaged the 55,000 refugees for seven hours, firing wildly into the encampment".

Hundreds died and were buried in a mass grave. And this was "just one of numerous tales of mass killings... carried out by sol-

diers loyal to Mr Kabila". The stories, wrote Mr Pomfret, "along with mass graves and accounts of witnesses and victims in eastern, central and western Congo, paint a horrific picture of atrocities". Taken together, they suggest the massacres were not isolated instances of unruly troops, but rather part of Mr Kabila's war of liberation.

One word is conspicuously missing from Mr Pomfret's report: a word that reporters are rightly reluctant to overuse - and governments are reluctant to use at all, since almost all states are signatories to an international convention obliging them to intervene and halt "genocide" whenever it occurs.

Yet what other word will do when, in the words of Amnesty International, "thousands of unarmed civilians, mostly Rwandese Hutu refugees and (ex-)Zairean Hutus, are reported to have been deliberately and arbitrarily killed", while "Congolese (ex-Zaireans) from other ethnic groups suspected or known to be sympathetic to the Hutus and others thought to be hostile to the Tutsis have also been targeted".

Those of the victims who are refugees are supposed to be under the protection of Mrs Sadako Ogata, the UN High Commissioner. Her office (UNHCR) is mandated to look after refugees and to ensure that they are not sent back against their will to the country from which they fled. But that has now become almost the least of its concerns. UNHCR, together with various voluntary agencies, has been struggling to repatriate as

many Rwandan refugees as it can, in the hope of saving them from an even worse fate if they stayed in Congo. Oxfam, one of the voluntary agencies most active in the area, estimates the death rate among the refugees who have returned to Rwanda at 60 per 10,000 per day. But among those who remained in Congo the estimated death rate from preventable causes (not including homicide) was five times higher than that - until about three weeks ago. By then there were "no major concentrations left", though some 200,000 refugees remain unaccounted for.

"We believe this death rate to be a world record," says Mr Nicholas Stockton, Oxfam's emergency director. Yet, in the UK at any rate, there has been minimal newspaper coverage and no major appeal for funds as in previous humanitarian crises. "Human life," concludes Mr Stockton bitterly, "is deemed not worth saving any longer."

The reason is, of course, that the world's conscience is already numbed by other atrocities and especially by the genocide against the Tutsis which the Hutu regime in Rwanda organised before it fled in 1994. The armed men who unsuccessfully defended the refugees in Congo this spring were, in all probability, among those who butchered defenceless Tutsis in Rwanda three years earlier.

The world failed to stop that genocide and failed afterwards to weed out its perpetrators from among the refugees kept alive by western aid on the Rwanda-Zaire frontier. Instead it allowed armed men to control those camps, to use them as bases for raids back into Rwanda, and then to attack Zairean Tutsis as well. So now, when the survivors of one genocide resort to another, the world prefers not to know.



Kabila: chilling stories have emerged about his supporters

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Stet confident global ambitions can pay off

From Mr Guido Rossi

Sir, In my language, Italian, we refer to a particular kind of shower which alternates waves of hot and cold water as a doccia scozzese, a "Scottish shower". I feel a similar sensation as I write. In your article "Troubleshooter was parachuted in" (FT Telecoms survey, June 11), I am the subject of a flattering profile which very kindly says I have made "remarkable progress" in helping to assist Stet/Telecom Italia to become, among other things, more international. For this I am profoundly grateful. The task we face is hardly

simple, and the encouragement of the Financial Times means a great deal.

However, in the same edition, the Lex column suggested that we should put these "extravagant tastes" behind us, concentrate on acting as a local distributor in Italy for the services of others, and simply give the cash we generate to our shareholders rather than invest it abroad. I think our shareholders have little cause for complaint. The overall market capitalisation of Stet has risen by 70 per cent in just seven months. Though I understand that the energy we are unleashing within Stet/Telecom Italia may appear to Lex to be simple "rushing around", I assure you we are proceeding according to a concrete strategy intended to take our international revenues from telecommunications services, which were roughly 9 per cent of sales last year, to around 20 per cent of sales by 2000. That is not just our personal feeling. Analysts say such a strategy can pay off. As far as the Serbian deal is concerned, I would note that our evaluation has been done discounting cash flows with an appropriate (suggested by our adviser, UBS) country risk. Just to

give you a comparison, the price paid for the purchase of the stake of SPT refers to a value that is 12.9 times the operating cash flow. We already are a global player in a global market. We intend to increase our role abroad. The sharp growth in value the market attributes to our company suggests our shareholders are inclined to agree with me that this is not such a wrong-headed ambition.

Guido Rossi, chairman, Stet/Telecom Italia, Corso d'Italia, 41-00198 Rome, Italy

Australia's climate stance too negative

From Ms Ute Collier

Sir, Australia has been one of the countries most obstructive to progress in the international climate negotiations, hence it comes as no surprise to hear that the EU's climate change policy is being attacked by an adviser to the Australian government ("Brussels policy on climate change attacked", June 13).

The EU's position, while far from perfect, is nevertheless the most progressive proposal on the table from any of the leading emitters. Dr Brian Fisher, the academic employed by the Australian government, bases his arguments on the results of various economic modelling exercises, the latest of which claims that it would cost Australia 22 times as much to meet a 15 per cent reduction target than the

EU. However, these model results are based on assumptions which are fundamentally flawed, such as Australia already having a super energy-efficient economy. In reality, the energy intensity of the Australian economy has only improved by about a third of the OECD average in the last 25 years. Meanwhile, despite a good potential (especially for solar power), the role played by renewable energies is negligible. The Australian government fails to see that improving this performance and cutting emissions would be in its own interests economically and environmentally.

The EU is right in insisting that other developed nations should follow its example. Emission cuts will have to come from all industrialised countries, which

carry a disproportionate burden of past and current emissions. Industrialised countries can only start arguing for emission reductions in developing countries when they have put their own house in order. Here Australia has a long way to go. The Australian government should stop trying to undermine progress in the climate negotiations and remember that climate change is likely to have substantial negative impacts on the Australian continent, such as worsening water shortages, as well as threatening its greatest tourist attraction, the Great Barrier Reef.

Ute Collier, senior research officer, Friends of the Earth, 26-28 Underwood Street, London N1 7JQ, UK

Missing the vision

From Professor Jagdish Bhagwati

Sir, Mr Harry Freeman, the Washington free-trade lobbyist, in reacting furiously (Letters, June 13) to my article ("Short on trade vision", June 8) betrays the two faults that bedevil the formulation of a practical yet visionary trade policy. First, he accepts political reality as he finds it in Washington, condemning my suggestions as "political insanity". Statesmen differ from politicians: the latter accept political reality as they find it, the former reshape it constructively.

Second, he deplores any vision, denouncing "empty calls" and applauding "action" instead. Please! He underestimates the role of symbols and ideas. He also forgets that it is not enough to go around fixing potholes as you find them; you also need a road map.

Jagdish Bhagwati, professor of economics and political science, economics department, Columbia University, New York, NY 10027, US

Spin-offs would improve political stock

From Mr J.W. Warner

Sir, There is very rarely reason to doubt the fundamental analysis of Lex, but may its article on the Tory leadership have missed a point ("UK Conservatives, June 11")?

Markets often reward companies brave enough to cut weak divisions with a substantial rise in their share price.

Might not the Tories in 2002 without Gorman, Cash, Marlow et al be equally as

attractive to investors as, say, NatWest without NatWest Markets.

J.W. Warner, Warner Associates, 40 Dunkel Road, Bournemouth BH3 7EW, UK

INVITATION TO BID FOR BAHR DAR TEXTILE ENTERPRISE IN ETHIOPIA

INVITATION No. 006/1996-97

1. The Ethiopian Privatization Agency (EPA), pursuant to the powers and duties vested in it by Article 5 (3) of Proclamation No. 87/1994, hereby invites all prospective investors to submit bids for the acquisition of a full or partial stock ownership in the existing business, and an investment and/or implementation proposal towards the realization of the expansion/rehabilitation project of Bahr Dar Textile Enterprise.
2. Bidders can submit their bids indicating the percentage of ownership they want to acquire.
3. Bid Documents will be available in Room 504 of the Ethiopian Privatization Agency starting Monday 28 April 1997 and interested bidders can obtain them during working hours upon payment of non-refundable Birr 100 or the equivalent in U.S. dollars for each set of documents.
4. Bidders shall submit bid bond in the amount of 2% of their offer along with their bids. The bid bond shall be in the form of a bank guarantee or a certified cheque or insurance bond, all payable to the Ethiopian Privatization Agency.
5. Bids shall be submitted in wax-sealed envelopes on or before Friday 25 July 1997, 5.00 p.m. local time, addressed as follows:

Ethiopian Privatization Agency
P.O. Box 11835
Bole Road, Woreda 18, Kebele 18
Room No. 504
Addis Ababa, Ethiopia
INVITATION No. 006/1996-97
Bid for Bahr Dar Textile Enterprise

6. The bids shall be opened on Monday 28 July 1997 at 10:00 a.m. local time, in the conference room of the Ethiopian Privatization Agency, in the presence of bidders or their representatives.
7. The Agency reserves the right to accept or reject any or all bids

ETHIOPIAN PRIVATIZATION AGENCY
TEL: +251 1 150370
FAX: +251 1 513955

Personal View • Steven Rattner

Midsummer madness

The euro should be delayed until Europe comes to its senses on economic policy

For months, American devotees of economic policy have watched as the meanderings of Europe have grown more and more curious. Now, as evidenced by France's parliamentary poll and the post-election manoeuvrings, continental Europe appears to have gone economically berserk.

Most bizarre, the embrace by France of statist ideas that lost all credibility in the US more than a decade ago. Not even the most fringe element in America today would argue that more public sector jobs, larger budget deficits and an interventionist state would constitute a proper tonic for slow growth and lagging competitiveness.

Almost as surreal have been the efforts in Amsterdam and elsewhere to continue to push the euro through in the face of weakened commitment to the Maastricht criteria and uncertain obedience to the terms of the French left. The euro would probably not have worked under pre-election circumstances, and Europe is now far from those seemingly halcyon days.

It is time to put the euro out of its misery. The project should at least be postponed until Europe comes to recognise the fantasy of believing that a unified currency and a set of arbitrary fiscal benchmarks could turn a variety of inert economies into a match for the vibrant American colossus.

For all the countless trees that have been felled to publish thoughtful words about the euro, most Europeans remain oblivious to what has made the US experience successful and why the euro cannot succeed. True, as the euro obsession implies, the US success is partly about disciplined fiscal and monetary policies that have driven our budget deficit to below 1 per cent of gross domestic product.

But equally important, US

success has been based on a flexible economy that prizes innovation, that taxes and regulates less, that permits labour market terms and conditions to adjust freely, that allows regional disparities to be diminished by the free movement of labour and capital, and that affords its immigrant and minority workers the chance to make their best contribution. Furthermore, the system funds its growth through highly liquid financial markets that attract capital by promising investors the opportunity to profit - or lose - without the risk of government changing the rules.

By itself, the euro would distract Europe while addressing few - if any - of these challenges. A single currency would bring certain efficiencies by eliminating foreign exchange mechanics in Europe. It could challenge the dollar's role as the world's reserve currency, though the value of that is not wholly apparent. It would lead perhaps to a one-off demand for euros that might temporarily improve the euro-dollar exchange rate, but this would soon return to fundamentals.

The French have not been alone in their confusion. Countries throughout Europe have dodged the real issues in their rush to meet the Maastricht criteria, rather like Cinderella's sisters trying to jam their oversized feet into the glass slipper. Only the UK seems to have retained a modicum of sense, maintaining a careful distance from the euro panic, improving its management of monetary policy and

When only the euro remains, what will happen when the populace of a country like France decides not to bear the pain any longer?

Proponents of the euro have argued that a single

exchanging a tired government for some new blood.

Most worrying, the French elections provide a preview of the social and political consequences of adopting the euro in a vacuum. Monetary integration alone cannot possibly force the "convergence" of participating economies. National governments retain control of a huge array of policies, including over tax and spending. Having a euro would not prevent the French from going down the road on which they are now embarking.

Even as 1999 approaches, European states continue to demonstrate their readiness to fiddle the numbers, as the recent attempt to refinance gold reserves by the normally sensible Germans shows. If countries are willing to go to such lengths just to join, imagine what liberties might be taken later. Even with genuinely integrated policies, the experience of the US suggests that competitiveness might not always converge. Take our experience with productivity, which increased rapidly in the 1950s and 1960s, slowly in the next two decades, and may have risen somewhat faster in the 1990s. But we know neither why productivity slowed nor even how fast it is growing at the moment - much less how government policies influence it.

Without convergence of competitiveness, different growth rates will inevitably develop. Without monetary and exchange rate policy to redress these imbalances, the consequences of adjustment will be magnified: rising unemployment, enormous downward pressure on wages, loss of investment to more competitive countries and the like.

France provides an important lesson of why the euro cannot work on its own. Once historic currencies have been abolished and only the euro remains, what will happen when the populace of a country like France decides not to bear the pain any longer? The answer is a move to expansionary policies such as those now being adopted by Paris. This would be destructive.

Proponents of the euro have argued that a single

currency will help bring about greater political integration. In that sense, the French elections also provide an important lesson by showing, if nothing else, that when the going gets tough, political convergence becomes less, not more, likely. In reality, the euro has a chance of succeeding only once true political integration exists.

Supporters of the euro continue to argue that the US has had one currency and yet has worked through differences in regional growth rates without huge dislocations. That comparison should be recognised as weak. For two centuries, the US has had a strong central government with a dominant role in formulating fiscal and regulatory policy, easy migration of labour, few language or regional cultural differences and a variety of federal programmes to ease the pain when a region goes into recession.

The US experience holds other lessons for Europe as well. We have learned over the past two decades, for example, that in such a fast-changing world, categories of money supply hold so little meaning that the Federal Reserve has embraced a more impressionistic approach to guiding our economy, concentrating on price stability and full employment. How would such decisions, made in a Europe of varying unemployment and inflation rates?

A perception permeates the European press that the US is somehow frightened of an integrated Europe. That is simply not true. Weak European economies intensify our own balance of payments challenges. Weak European economies distract from the integration and rebuilding of eastern bloc countries. And weak European economies mean a lack of strong political leadership to help maintain global tranquility.

A truly integrated Europe would hold great promise, not only for itself but for the rest of the world. Unfortunately, the present course of events offers little reason for optimism.

The author is deputy chief executive at Lazard Freres, New York

FINANCIAL TIMES

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Japan's task in defence

To the outside world, Japan seems painfully slow to take decisions about defence. Its government's call for new legislation allowing its military to assist in tackling security crises outside its borders is the culmination of a belated review that ought to have taken place as soon as the cold war ended.

Given such a long delay, the change looks rather trivial. Japan still talks about rewriting its constitution to permit its troops to fight abroad as part of a collective regional defence arrangement. Any assistance Japan did provide its US ally would remain largely logistical.

Yet its move is welcome. It should not be underestimated in a country where defence spans so much political neurosis. The US-Japan alliance is the cornerstone of security in Asia. It ensures the US retains a presence in the region and helps mitigate pressures from more nationalist Japanese for unilateral rearmament – something which remains one of the deepest fears of Japan's Asian neighbours. But it has long been clear that the alliance would not survive if Japan continually refused to play a more active role.

Spurred by concerns about stability on the Korean peninsula, this is what it has now agreed to do. But simply changing the law may not be enough. Japan and the US must make

sure their enhanced co-operation actually works, and there are some traps along the way. It is far from certain the US would find Japan's increased support sufficient in any real crisis. Conversely, most Japanese may still find it goes too far.

One concern is China. Japan was openly critical of China's missile exercises in the Taiwan Strait last year and imposed modest sanctions on Beijing for its nuclear testing. But, on balance, it is more accommodating than the US, at least as far as restrictions on democracy in Hong Kong are concerned.

Strengthened defence co-operation will not work unless the two sides are clear – and closely aligned – in their foreign policy objectives. Similarly they must take care not to let arguments on other matters like trade loosen the defence bond. That requires a continuing effort to maintain a close bilateral relationship on all levels.

Separately, the Japanese government must now promote an informed debate at home and abroad. Ideally that would lead towards a change in the constitution, or at least a further reinterpretation, to allow Japan to participate in collective defence arrangements. Such an idea has hitherto been taboo. Mr Ryutaro Hashimoto's government must persuade a sceptical public that it would enhance rather than threaten regional security.

Bibi's choice

When Mr Benjamin Netanyahu took office a year ago, he promised "the first coherent economic leadership in Israel's history". Instead, there has been little co-ordination in his ramshackle coalition; his strained relations with Mr Dan Meridor, finance minister, have been complemented by Mr Meridor's differences with Bank of Israel governor Jacob Frenkel.

A brave attempt to cut the budget deficit – from 4.9 per cent of gross domestic product last year to 2.8 per cent this year – lost momentum and, crucially, has not been accompanied by promised structural reforms.

In exchange for budget cuts, Mr Meridor has insisted on lower interest rates, to reduce upward pressure on the shekel, help exporters and boost growth which has fallen from 7.1 per cent in 1995 to an expected 3 per cent this year. The Bank, however, which has kept rates 4.5 points above inflation running at 9 to 10 per cent, believes the inflationary risk from high wages and low competition are too great to ease the reins.

Mr Netanyahu's off-announced plans to deregulate, privatise and to break up monopolies have yielded little except column inches. The Jerusalem Report bi-weekly magazine in its end-of-first-year "grading" of the government's performance, remarked this

week that "Bibi [the prime minister's nickname] has spoken a lot in class but hasn't produced much work". In January, he announced the break-up of the bus and transport monopolies; nothing has happened.

Privatisation, in a country where Bank Hapoalim, largest of the three state-owned banks, holds 40 per cent of all deposits and accounts for 8 per cent of GDP through its industrial holdings, has moved very slowly. Yesterday, however, Mr Netanyahu announced the phased abolition of currency controls, more budget cuts and faster state sell-offs. The cabinet was last night trying to resolve Mr Meridor's differences with Mr Frenkel – with the possibility that the finance minister might resign. But it is time for Mr Netanyahu to choose.

Israel's success, especially in high-tech industry, masks severe structural weaknesses among which the public and private monopolies are only the most visible. High growth in the 1990s, moreover, has been fuelled by one-off factors such as a big influx of immigrants from the former Soviet Union, increased US aid and new markets opened up by the now frozen peace process. Israel can not duck structural reform and, as Mr Netanyahu identified at the outset, this does require a coherence – and a determination – he has yet to deliver.

Cost of terror

The murder by Sinn Féin/IRA of two police officers in Northern Ireland sends a powerful message about the intentions of the republican movement. For all its recent political successes, terrorism remains integral to the organisation's strategy. Even as it demands a place in multi-party talks, it is seeking to undermine prospects of a peaceful settlement.

The timing and location of these latest murders were calculated to provoke a backlash among unionists in the run-up to the July marching season. In particular, republicans are seeking another violent confrontation at the Orange Order march in Drumcree, Portadown. Sinn Féin/IRA's aim is to provoke a backlash among loyalists which would strengthen its own position in the nationalist community. It hopes also that another descent into sectarian violence will radicalise the nationalists and put pressure on Mr Tony Blair's government to seek an accommodation.

In breaking off official contacts with the IRA's political leadership, Mr Blair recognised the brutal cynicism behind its strategy. As Mr John Bruton, outgoing Irish prime minister, remarked, Sinn Féin's leaders are "indistinguishably allied" to the terrorists. The US administration's recognition of this reality is welcome. So too are the signs that Mr Bertie Ahern, prime minister-elect, is reconsidering his policy of talks

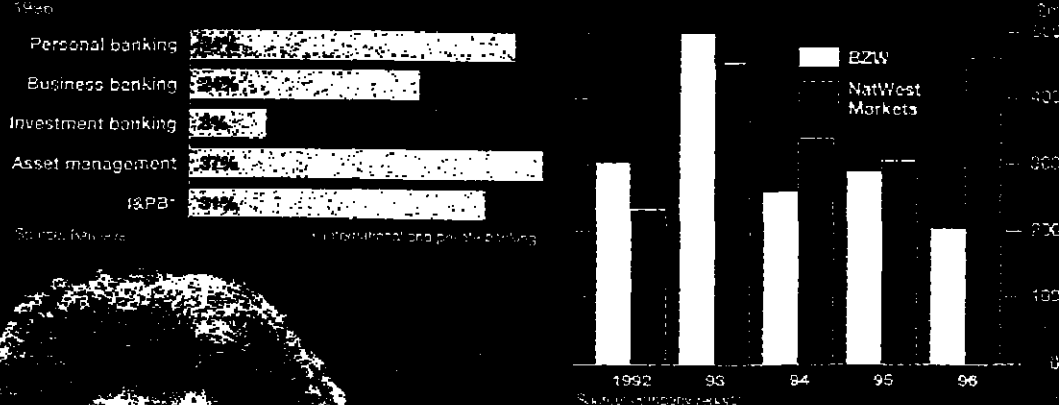
with the republican movement. But it is not enough for governments to condemn and isolate Sinn Féin/IRA. The onus now is on Northern Ireland's constitutional parties to demonstrate that republicans have something to lose by excluding themselves from the talks process. That requires real progress by unionists and nationalists in forging a new constitutional settlement for the province.

For unionists this means above all restraint. To invite confrontation at Drumcree and elsewhere would be to play into the hands of the terrorists. Unionists must also show imagination and courage in the negotiations. As long as the talks are bogged down in arguments about decommissioning of weapons, Sinn Féin/IRA lose nothing in staying outside.

There is a parallel challenge for the SDLP led by Mr John Hume. In his understandable determination to explore every avenue to peace, Mr Hume has allowed Sinn Féin's Mr Gerry Adams and Mr Martin McGuinness to pass themselves off as spokesmen for peaceful nationalism rather than violent republicanism. The SDLP must reverse that trend by reasserting the distinctive voice of constitutional nationalism. Sinn Féin/IRA has prospered through pretence. If negotiations among the constitutional parties began to make progress, republicans might begin to see that violence carries a cost.

Investment banking: where returns are hard to find

Barclays' post-tax return on risk-adjusted capital



The price of ambition

NatWest and Barclays are finding it tough to break into investment banking, writes John Gapper

As the shares of National Westminster Bank sagged yesterday in the wake of the resignation of Mr Martin Owen, head of investment banking, the outlook for British investment banks appeared bleaker than ever.

NatWest and Barclays, the clearing banks that have tried to expand most heavily into investment banking, face increasingly awkward questions from dissatisfied shareholders.

"NatWest has no obviously sizeable businesses [in NatWest Markets, its investment banking subsidiary] with attractive profitability, market share or competitive advantage," concludes Mr Robert Law of Lehman Brothers, one of several analysts to downgrade their profit forecasts. "It is unclear how even the most radical action can transform the prospects."

This crisp judgment on NatWest's efforts to build a global investment bank over the past five years represents the market consensus. Several of NatWest's largest shareholders now think that Mr Derek Wanless, NatWest's chief executive, may also be forced to resign. They say that if NatWest reverses its expansion into investment banking there are bound to be further casualties.

NatWest's difficulties erupted in March when it discovered a mispricing of options in its interest rate derivatives arm in London. It has taken a \$77m (\$125m) loss, and five managers remain suspended while it completes an inquiry. This week it said it expected first-half profits in investment banking to be lower than expected, triggering a fall in its shares.

Mr Wanless is fighting on for now, having stepped into Mr Owen's shoes at the helm of NatWest Markets until he can find another banker to lead it. He

insists that NatWest remains committed to investment banking. But when the dust of recent events settles, it is unclear how much will remain of its grand plans to compete with US investment banks, such as the powerful Goldman Sachs.

NatWest is not alone in facing deep uncertainty over its investment banking activities. BZW, the investment banking arm of Barclays, has been given two years by Mr Martin Taylor, the bank's chief executive, to show measurable progress towards making a 20 per cent return on equity. A sharp fall in profits last year left BZW a long way from making such returns.

The problems of UK banks do not stem simply from their lacklustre results from investment banking. That has also been true of other European universal banks such as Deutsche Bank, which has yet to gain adequate returns from Deutsche Morgan Grenfell, its investment bank. Paradoxically, British banks suffer from the fact that they make more money doing other things.

The big three Swiss banks make only marginal profits at best from domestic retail banking, and have thus been forced to branch out into investment banking. British banks, by contrast, are not in the same bind. Those that have focused their capital in retail banking and mortgage lending – notably Lloyds TSB Group – have higher and more consistent returns.

Furthermore, British banks have to deal with more active and aggressive shareholders than rivals in continental Europe. NatWest has a higher target for return on equity than German or Swiss banks and has been heavily criticised for not quite matching it. It cannot afford the slow and deliberate approach to growth in investment banking that would be acceptable elsewhere.

Finally, the shift to investment banking has placed a strain on management skills. Investment bankers are notoriously hard to manage, being both well rewarded and temperamental. British banks have generally avoided buying in fresh management by acquiring a large investment bank, a tactic that has proved troublesome elsewhere.

NatWest has opted to buy a series of niche businesses such as Greenwich Capital, a US bond trading house, and a corporate finance advisory firm in New York run by Mr Eric Gleacher. It has met with scepticism from rivals. "I don't think that putting a lot of capital into a series of little businesses looks like a very sensible thing to do," says one banker.

By contrast, Mr Taylor at Barclays has chosen to hire two senior executives with experience of US investment banks – Mr Bill Harrison, BZW's chief executive, and Mr Bob Diamond, its head of fixed income – to renew its operations. This has led to rapid staff turnover as specialists have been brought in from outside, and has disrupted business.

The mediocre management of S.G. Warburg before it was acquired by Swiss Bank Corporation in 1995 has not persuaded investors that the British are naturally talented handlers of large integrated investment banks. Although the smaller Schroders is regarded as well managed (see right), NatWest Markets and BZW still have to prove themselves.

There is one comfort large UK banks can draw from the latest upset to their ambitions: they are unlikely to be the last European banks to face tough questions about the value of investment banking. For now, European rivals may be indulging in some *schadenfreude*. Yet, unless they do better, their investors will not remain patient forever.

Success on a modest scale

Mr Derek Wanless, NatWest's chief executive, declared on Monday that his group would "not be all things to all men".

That is a phrase that has been heard for years at Schroders, which since the takeover of S.G. Warburg by Swiss Bank Corporation has been the leading independent UK investment bank.

Schroders' success is on a modest scale – it produced pre-tax profits of £239m (£390m) last year, compared with £462m at NatWest Markets. Yet, it is perhaps modesty that is a clue to the group's survival.

Besides banking the word "global", the most common word on other investment bankers' lips, the family-controlled Schroders has been wary of pursuing size for size's sake, and has avoided competing head to head with larger rivals.

The bank's staff has remained stable compared with the flighty standards of the sector. Promotion has come from within, with rare exceptions such as the recruitment of Mr Philip Augar from NatWest Markets to head a new equities broking operation.

The last year has seen a change of generations, with the retirement of Mr Jean Solandt, chairman of J. Henry Schroder & Co. Yet even the younger generation has worked together for years.

Besides its extremely successful fund management operations, Schroders retains an enviable list of UK corporate clients. It acted in 122 mergers or takeovers worth a total of £21bn last year, 45 of them cross-border.

"The difference between Schroders and the likes of NatWest and BZW is that Schroders has a long history and a very good client list to fall back on," says one rival corporate financier. "BZW and NatWest have had to create their own client bases, which has involved the expense of hiring individuals who can bring their clients with them."

But if Schroders is the great British success story in investment banking, it is a reminder of how difficult that market can be. For although Schroders is producing a post-tax return on equity of 20 per cent, much of this comes from fund management. Investment banking returned only 12 per cent last year.

Mr Peter Sedgwick, vice-chairman, said the bank had taken steps to improve that return and did "not look upon 12 per cent as the limit of our ambitions". Increasing returns will not be easy, as shown by last year's 19 per cent increase in costs, much of it associated with Schroders' decision to enter equities broking.

Schroders has been a cautious acquirer, completing the takeover of Schroder Wertheim, the New York investment bank, in 1994 and adding a small Spanish broker last year. Schroders faced in New York the same problem that Barclays or NatWest face in the UK and concluded that the only way to grow in a mature corporate advisory market was by acquisition.

Schroders' challenge will be to replicate its success outside the UK in the growing advisory markets in Europe, Asia and Latin America.

George Graham

OBSERVER

Watchdog collared

■ US Securities and Exchange Commission chairman Arthur Levitt has responded to the familiar worry that big accountability firms demand too much on consultancy and other fees. The concern is that they're less aggressive than they should be when auditing the client's books, especially if the auditors are looking at work done under the guidance of another part of their firm.

He's set up a standards board, prominent among whose members are Barry Melancon, head of the American Institute of Certified Public Accountants, and the chairman of three of the country's largest accountancy firms – KPMG, Ernst & Young and Price Waterhouse. It would be surprising indeed if this line-up of the accounting profession's great and good decided that something was horribly wrong with the current state of affairs: they've often said quite the opposite. Sounds like a case of asking the fox to guard the henhouse.

The job of rocking the boat goes to the four others on the board, including Salomon, chairman Robert Denham and Vanguard mutual fund group chairman John Bogle. Balancing the interests of the accounting

profession and the wider shareowning public as chairman will be William Allen, outgoing head of the Delaware Court of Chancery, who doesn't even get a casting vote. But the SEC says it should be a "collaborative, not necessarily antagonistic" set-up. So all will be well.

Dinner date

■ British premier Tony Blair may not need to get out his pocket diary when he visits Hong Kong for the handover to China. With disagreements rumbling on about the provisional legislature and the timing of Chinese troop arrivals in the territory, it is a touch early to be penning in any top-level exchange of visits with China.

But one date is already looming: Tung Chee-hwa's first trip to London since his appointment as Hong Kong's chief executive is likely to be in October for the annual dinner of the Hong Kong Trade Development Council.

The timing will be sensitive, as it will follow Tung's announcement of new electoral arrangements for a permanent Legislative Council. The trade body's guests are far too polite to start lobbing bread rolls across the gilded balustrade of the Grosvenor House Hotel. But Tung can expect some trickshots

if his electoral arrangements go down badly around the world.

Cold coast

■ A cosmopolitan party is getting under way in Newfoundland, VIPs including Britain's monarch, Italy's president and the premiers of Ireland and Canada are turning up over the next two weeks to mark the 500th anniversary of Giovanni Caboto's arrival in North America.

The Italian explorer, aka John Cabot, is proving a bonanza for The Rock. Newfoundland has persuaded the federal government in Ottawa to pay half the cost of the celebration, which it hopes will bring in 60,000 extra tourists this summer. There's an international choir festival, a Cabot and His World symposium, and a flotilla headed by a replica of the Matthew, the boat that brought Cabot from Britain.

But it's hard to organise any such party without a bunch of historians clutching sheaves of inconvenient facts. All that's certain is that Cabot landed somewhere between Maine and Labrador – more than 1,000 miles off coast. So he may never have seen Newfoundland. Unabashed, the Newfoundlanders have slipped a concession to accuracy into the symposium – a debate on the

location of Cabot's landfall – and decreed that the party will go on regardless.

Sterling moth

■ Tony Galsworthy seems to have spent a lot of his time studying oriental moths: he found 23 new species in producing a checklist of 900 Hong Kong varieties. Now he's been handed the ideal opportunity to extend his knowledge of Chinese lepidoptera – he's to be Britain's next ambassador to Beijing.

His other wildlife love, bird-watching, may be a little less rewarding in northern China since the extermination campaigns under Mao, who regarded birds as a nuisance and ordered noise campaigns to frighten them into flying around until they dropped exhausted out of the sky.

A redempt career diplomat who has served in Beijing twice before, Galsworthy did let the cat out of the bag ever so slightly recently when he told the South China Morning Post he hoped to visit Beijing to continue his study of moths: he had been in "slight contact" with some people in China's capital. He didn't reveal that his studies would also involve monitoring the behaviour of the Chinese leadership.

Financial Times

100 years ago

Insurgents in Cuba Madrid, 17th June. According to a despatch from Havana, an insurgent band commanded by Perico Delgado has been defeated in Pinar Del Rio; 25 rebels were killed and 7 taken prisoners. The delegates of the industrial and commercial bodies of Cuba have proposed to General Weyler to withdraw the notes now in circulation, owing to the war, and to issue bonds of 100 pesetas in the form of a redeemable debt of 20,000,000 pesetas at 5 per cent to be guaranteed by a tax of 10 per cent ad valorem on goods imported into Cuba.

50 years ago

Canadian Buses For S Africa Toronto, 17th June. Shipment of an order for 114 gasoline-powered buses to South Africa from the Canadian Car Foundry Company's Fort William plant begins early in July. Dr. P.R. Viljoen, South African High Commissioner to Canada, has disclosed that his country has purchased over 4,000 freight cars from Canadian Car since shortly before the war. He stated that an improvement and building programme would be completed within ten years at a cost of \$180,000,000.

COMPANIES AND FINANCE: EUROPE

Caja de Madrid buys 3% of Telefónica

By Tom Burns in Madrid

Caja de Madrid, Spain's second largest savings bank, has paid Pta102bn (\$703m) for 3 per cent of Telefónica, in move that reflects its strategy of becoming an industrial investor.

The savings bank is understood to have set aside Pta300bn for such investments over the next five years, and is likely to raise its stake in the telecoms group with further equity purchases on the Madrid stock exchange.

It said yesterday the Telefónica stake had been built up over two

months on the Madrid market.

The acquisition puts Caja de Madrid among the big backers of domestic industry. It also underlines a trend by the cash-rich savings banks towards industrial investments, a role traditionally played in Spain by the private banking sector.

Savings banks, which account for 44 per cent of domestic customer resources in Spain, are reckoned to have spent more than Pta500bn in the past year on equity purchases. The strategy is part of a response by the institutions to narrowed financial margins.

A group of smaller regional savings banks emerged last week as the main financial partners in a Pta116.3bn cash bid led by Stet, the Italian telecoms group, for Retevisión, the state-controlled TV signals company which will begin competing with Telefónica as a fixed-line operator later this year.

Caja de Madrid's investment in Telefónica will lift the Spanish profile of the telecoms group, which was fully privatised in February and subsequently entered wide-ranging global agreements with Concert, the alliance of British Telecommunications and MCI of

the US, and with Portugal Telecom. The agreement includes provisions for purchases of Telefónica equity by the operator's new partners.

Ahead of the sale of the 21 per cent stake in Telefónica still owned by the state, the government encouraged the creation of a hard core of shareholders to ward off an excessive foreign presence.

The banking groups Banco Bilbao Vizcaya, Argentaria and Barcelona-based La Caixa - the biggest of the savings banks and, unusually for a *caja*, a long-time industrial investor - jointly control just over 15 per cent of Telefónica.

Analysts believe that Caja de Madrid, which is the country's fifth-biggest financial institution and controls customer assets of Pta4,000bn, aims to become a fellow core shareholder by building a similar 5 per cent stake. This will give it a seat on the Telefónica board.

The Caja de Madrid treasure chest for equity purchases suggests the bank could also be eyeing Endesa, the dominant electricity generator, as an investment target. The government is planning to sell of about half the 66 per cent stake it owns in Endesa after the summer.

EUROPEAN NEWS DIGEST

Accor acquires casino group

Accor, the French leisure group, has become an important operator of the country's casinos by acquiring a majority stake in Société de Participations d'Investissements de Casinos (SPIC). The group has increased its stake to 65 per cent by buying the 25 per cent held by Sun International and 15 per cent indirectly owned by Pathé, the French media business.

SPIC, which was jointly created by Accor and the Barrière-Desseigne family, operates casinos in Nice, Cassis, Carry le Rouet and Chamouille, and has been named as the operator of a new casino to be opened in Dax. With turnover of FF550m (\$84.3m), it is the fourth largest in France. Accor acquired in 1989 a 34.9 per cent stake in SHGD, which in conjunction with the Barrière group operates the casinos in Desauville, Tronville, Engelen, Oustréham and Menton. Accor, which has said it will concentrate on four core businesses - hotels, car rental, travel agencies and vouchers - stressed that gaming and tourist activities were "very complementary" with its hotel activities and were growing fast.

Andrew Jack, Paris

Rheinmetall adds Kolbenschmidt

Rheinmetall, the German engineering company, has increased its stake in Kolbenschmidt, the motor components manufacturer, from 25 per cent to 53.5 per cent. Rheinmetall, whose activities comprise defence technology, automotive products, industrial machinery and office equipment, had already said it intended to acquire a majority of Kolbenschmidt and had been given the go-ahead by the federal cartel office.

Most of Rheinmetall's previous stake came from a 24.99 per cent holding bought from Commerzbank, which had originally held it for T&N, the UK engineering concern. T&N's attempt to buy Kolbenschmidt, which makes pistons, was rejected by the cartel office. The rest of the holding was acquired from financial investors and institutions. The company plans to merge Kolbenschmidt, which has a turnover of about DM1.3bn (\$752m), with its Pierburg automotive products unit. Rheinmetall will own about 75 per cent of Kolbenschmidt Pierburg, which will have turnover of DM2.5bn.

Andrew Fisher, Frankfurt

Hungarian haulier set for sale

The Hungarian privatisation agency, APV, has invited bids for an 81 per cent stake in the state haulage company Hungarocamion. The buyer will have to provide a capital injection of Ft 1.3bn (\$7m) and development finance of Ft 5bn over three years, mainly to ensure Hungarocamion's 1,200 truck fleet meets EU standards. The company, which has a broad transport brief including customs clearance, has 2,900 staff, including 1,600 drivers.

This is the third attempt at privatising the haulier, after abortive tenders in 1994 and last February, when APV received one "very good" domestic offer which failed on a few conditions, a privatisation official said. However the current tender, by allowing 60 per cent of the bid price to be paid in compensation coupons (issued to Hungarians who suffered under previous political regimes) appears to favour domestic buyers. Hungarocamion had shareholder's equity of Ft 6.5bn at the beginning of the year and 30 per cent of the Hungarian road haulage market.

Kester Eddy, Budapest

Brigadier takes up the cause of Liberty

New chief executive of S African financial services group sets out to promote its expansion plan

A week after he stepped down as president of the Johannesburg Stock Exchange to join Liberty Life, Mr Roy Andersen was summoned for army service in the South African National Defence Force.

The aspect he most enjoys of his second career as a part-time brigadier is planning manoeuvres with former guerrillas from the armed wings of the former liberation movements.

Striking deals with old adversaries is becoming a habit for Mr Andersen, who this week began his first roadshow for international analysts since taking over as chief executive of Liberty Life in April.

The brigadier was the architect of Johannesburg's "big bang", which attracted a surge of new capital to the 110-year-old stock exchange from foreign institutions traditionally critical of the cosy conditions enjoyed by local brokers. His next task is to marshal similar enthusiasm for Liberty's international expansion.

In little over four decades, Liberty has grown to become South Africa's fifth largest equity investor and - through its effective interest of 44 per cent in the Standard Bank empire - one of the country's strongest financial services groups.

Under the stewardship of

its founding chairman, Mr Donny Gordon, the group has notched up annual net asset growth of 32 per cent for the past 10 years.

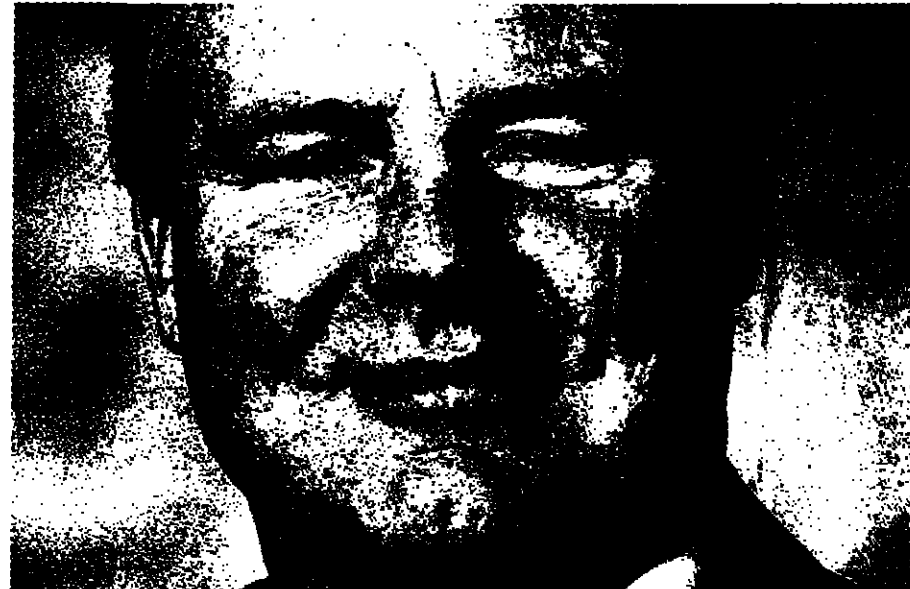
Its performance looks only slightly less impressive from outside South Africa, where investors will do their sums in dollars. In spite of last year's sharp devaluation of the rand, Liberty boasts average annual growth in market value - in dollar terms - of 22 per cent per share over the past 10 years.

During the next two weeks of his roadshow, Mr Andersen will find foreign analysts in Europe and the US hungry for reassurance that these returns can be sustained into the next century. His response will be to promise a joint venture with an emerging black business group, and possibly a march on the US market.

A low level of domestic savings, limited social security and the rise of a new black capitalist class augur well for the life assurance market in South Africa. But mounting competition and a sluggish domestic economy may constrain future growth.

To achieve Liberty's goal of annual earnings growth of 20-25 per cent for the next 10 years, Liberty must combine innovation at home with a focused expansion overseas.

The first step will be to float its wholly-owned Char-



Roy Andersen: targeting all the English-speaking world, and possibly South America

ter Life subsidiary, South Africa's fastest growing life insurer and leader of policy-linked credit.

The restructuring offers an opportunity to forge a new alliance with black business, which could boost both Liberty's profile in the black consumer market and its political credentials.

The merits of the plan are self-evident. Charter reported an 86 per cent increase in new premium income last year, and has

assets exceeding R1.5bn (\$333m). Yet its book value, as recorded in Liberty's financial statements, is only R110m. This compares unfavourably with the R2.5bn market capitalisation of African Life, Charter's black-controlled and publicly quoted rival, which has a smaller asset base and lower total income.

The listing, which could take place this year, is likely to raise about R2bn to be shared between Liberty, Standard Bank and the new black partner. Negotiations

to sell a pre-listing stake to a black-controlled financial services group are entering the final stage, says Mr Andersen. "We have a pretty clear idea who we will go with, but we may keep it under wraps until the listing."

Ahead, he forecasts an increase in the contribution from international activities from 9 per cent of earnings last year to 50 per cent within five years.

The first phase of that expansion will be driven by property interests in the US,

where Liberty controls Capital and Counties, the fourth biggest commercial property group on the London Stock Exchange. Offshore earnings may also be buoyed by Liberty's recently launched UK pensions business and new offshore funds in Jersey.

In the longer term, Mr Andersen defines his target market as "all the English-speaking world, and possibly South America", where he expects the financial services industry to mushroom.

Analysts are more specific. They say the new chief executive was hand-picked by Mr Gordon to succeed him as head of the group, but his rise of passage could be to realise the chairman's ambition of a stake in the US market.

The combination of high market ratings for life insurers in the US, and exchange controls in South Africa, mitigate against an acquisition in the near future.

"It is difficult to see how they will get into the US unless Wall Street crashes," says Mr Alan McConnochie, analyst at B&S NatWest in Johannesburg. "But we have learnt not to underestimate Donny Gordon. He does pull rabbits out of hats, and I wouldn't be surprised to see acquisitions."

Mark Ashurst

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COMPANIES AND FINANCE: ASIA-PACIFIC

Gencor poised to launch bid for QNI

By Nikki Tait in Sydney and Mark Ashurst in Johannesburg

Gencor, the South African mining group which is poised to list its base metals operations in London, is expected to bid for QNI, the Australian nickel producer. A merger would create the world's fourth-largest nickel group.

QNI shares were suspended this week, pending a meeting of its board yesterday. Gencor directors also met in Johannesburg yesterday, and an announcement for investors will be issued by the

London Stock Exchange today.

QNI stock was suspended at AS\$2.68, which capitalises the Australian company at about AS\$1.1bn (US\$823m).

A merger would create a nickel producer with annual capacity of 130m pounds and a market capitalisation of about US\$1.7bn.

QNI and Gencor last year announced a study to investigate the development of an integrated nickel and cobalt processing facility in a joint venture with Indonesia's state-owned PT Aneka Tambang. This could include a new

nickel smelter in Indonesia using Gencor technology.

A merger with Gencor would also secure new capital to develop lateritic nickel ore deposits in Indonesia and expand QNI's Yabulu refinery.

Yabulu, which is situated close to Townsville in Queensland, is one of the world's largest lateritic nickel-cobalt processing plants. QNI stopped mining at the local Broiga and Greenvale mines some years ago, and now imports ore from Indonesia and New Caledonia for processing.

A merger would also enhance Gencor's expansion in Asia and South America. The South African group owns the Maggie Hays nickel project in Western Australia, in partnership with the smaller Forrester Gold group, and 99 per cent of the Cerro Matoso nickel mine in Colombia, which was privatised earlier this year.

QNI, meanwhile, has been expanding its alliances in New Caledonia. Last year, it agreed to explore nickel tenements in the southern province with Noumea Enterprises. It also took a 67 per

cent stake in a joint venture to acquire tenements in the northern province.

First-half profits for QNI in the six months to December 1996 showed a sharp decline from the previous year, while the company's performance in the quarter to end-March was also disappointing. Heavy rains and flooding meant nickel output fell almost 10 per cent on the March 1996 quarter.

Nickel production in the last full year was 26,800 tonnes, while cobalt production totalled 1,425 tonnes.

Keppel to refocus its investment strategy

By James Kyngie in Kuala Lumpur

Keppel, one of Singapore's largest conglomerates, is refocusing its overseas investment strategy away from China and towards south-east Asia, said Mr Sim Kee Boon, chairman.

"We are refocusing our regional investment strategy to concentrate more on Asian countries to generate shorter-term returns," Mr Sim said.

Asian, the Association of South East Asian Nations, has seven members but is due to admit Burma, Laos and Cambodia in July. "Our experience shows that projects in countries such as China have to be seen as longer-term investments," Mr Sim added.

Most Asian countries are regarded as more transparent for business than China, and growth rates are also attractive.

Keppel, one of a handful of Singapore companies with strong links to the government, was at the forefront of Singapore's investment honeymoon with China and led the establishment of the China-Singapore Industrial Park in Suzhou, near Shanghai, in 1994. Total investment in the park to date has been US\$2.5bn, substantially less than originally forecast.

Tokyo Big Bang draws westerners

The talks between Barclays and Takugin highlight trend towards collaboration

In the next few days a group of Barclays bankers will be flying from London to Tokyo on a sensitive mission.

The UK bank announced this week that it was considering a link with Hokkaido Takushoku (Takugin), the Japanese commercial bank. The bankers will be thrashing out how the proposed collaboration will work, and hope to unveil some concrete deals next month.

The discussions remain wary: neither side plans a cross-shareholding. Their collaboration is likely to focus on specific areas, such as securitisation. But the move highlights a new corporate dating game in Tokyo.

Japan's plans for "Big Bang" financial deregulation have set western banks and fund managers scrambling to expand in the Japanese market, partly by flirting with potential Japanese business partners.

These contacts are not entirely new. Most foreign banks in Tokyo have been

dealing with Japanese clients for more than a decade. Barclays, for example, already has a joint investment advisory venture with the Nikko group, which it took over from Wells Fargo, of the US, last year.

But the links are gathering pace. Apart from Barclays' move, three other big deals between Japanese and foreign partners have

The dating game: some recent deals

Q1 March: Barclays, the UK banking group, and Hokkaido Takushoku Bank, a Japanese commercial bank, form a joint venture to develop financial products in Japan. Barclays is now considering a similar move in Hong Kong.

Q1 April: Barclays, the UK banking group, and Nippon Life, Japan's largest life insurance group, agree to collaborate in fund management. Putnam will manage some pension funds for Nippon Life and the two groups will swap information on financial products.

Q1 June: Putnam Investments, the US fund manager, and Nippon Life, Japan's largest life insurance group, agree to collaborate in fund management. Putnam will manage some pension funds for Nippon Life and the two groups will swap information on financial products.

Q1 June: Barclays, the UK banking group, and Hokkaido Takushoku (Takugin) announce collaboration talks. A planned tie-up is expected to involve joint development of securitisation products and the sales of financial products, such as investment trusts.

Barclays may also offer overseas services, such as underwriting, to Takugin's domestic clients.

Source: Companies

emerged since March, and expectations are rising in Tokyo that more will soon follow.

Mr Andrew Simmonds, chief executive of Barclays' operations in Tokyo, says: "Deregulation is going to offer some exciting opportunities in Japan, and if other companies feel like us they may be looking for deals too."

Japanese banks, securities

houses and insurance groups lack many of the financial skills and products that western banks and fund managers can offer. Meanwhile, foreign groups lack the distribution networks to tap into the country's corporate client base - and its honey pot of personal savings.

Forging these alliances is difficult. Many Japanese financial institutions are ter-

ritified of ceding control to foreign competitors. It is no accident that two of the recent deals have involved weak Japanese financial groups - namely Takugin (with Barclays) and Nippon Credit Bank (with Bankers Trust), which are both plagued with high levels of bad loans.

Foreign groups are wary of tying themselves too closely to potentially troubled Japanese partners - particularly since Big Bang will give foreign banks greater scope for operating on their own.

But in some areas, collaboration is increasingly attractive - for example, in securitisation, as most Japanese banks urgently need to restructure their balance sheets.

Fund management is another focus. The country's main life insurance companies are under pressure to improve their investment performance. Although many are already using foreign fund managers for some overseas investment, most are exploring ways of contracting out more of their portfolios to foreign groups.

These talks are not simple. As Mr Hitoshi Yamamoto, president of Deutsche Morgan Grenfell trust bank in Tokyo, says: "We have been talking to Japanese life companies, but many see us as a competitor."

However, Putnam, the US fund manager, recently con-

cluded one alliance to manage some pension funds for Nippon Life, Japan's largest life insurance company.

"I think you will see more and more link-ups in the coming months," Mr Yamamoto says.

The area arguably provoking the most interest is the mutual fund business. A mere 3 per cent of Japanese personal assets is held in investment trusts, and many foreign banks are applying for investment trust licenses.

Western banks are exploring collaborating with Japanese brokers - or even with commercial banks, which will be allowed to distribute these investment trusts as part of Big Bang.

Barclays, for example, is applying for an investment banking licence and hopes that Takugin, which is the largest lender in the northern island of Hokkaido, may provide one distribution outlet.

Whether these alliances herald fully-fledged mergers or takeovers is unclear. Most Japanese financial institutions are expensive, overstuffed and burdened with high levels of bad debts.

Nevertheless, the possibility of stronger ties is provoking intense reflection. As one senior western banker says: "The Barclays deal will not be the last."

Gillian Tett

Sharp rise in Hongkong Electric shares

By John Ridding in Hong Kong

Shares in Hongkong Electric rose sharply yesterday amid speculation that Mr Li Ka-shing might increase his holding in the utility or sell a stake to a strategic partner. A rise of almost 6 per cent in the shares took their climb to more than 11 per cent this week.

The increase was part of a broader rally in the utilities

sector and came against a falling stock market.

While Hongkong Electric declined to comment, attention focused on China Everbright, the fast-growing conglomerate controlled by China's state council.

However, the Chinese company said it was not interested in a stake in Hongkong Electric.

China Everbright is one of the most active mainland-backed companies in Hong

Kong. It bought an 8 per cent stake in Hongkong Telecommunications last month.

Chinese companies have made several strategic moves in Hong Kong ahead of the transfer of sovereignty, but analysts played down the prospects of a deal with a mainland-backed business. They argued that Cheung Kong Infrastructure, rather than Hongkong Electric, had been desig-

nated as Mr Li's main infrastructure vehicle in China as part of a restructuring of his business empire earlier this year.

"CEI was given first dibs in power in China and Hongkong Electric was given more of a regional role," said Mr Eric Savage, at Salomon Brothers.

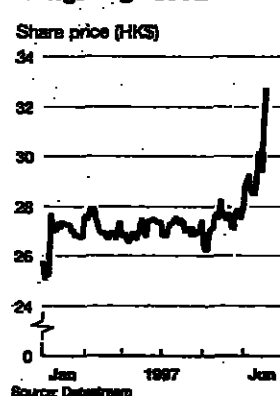
Reports of a possible deal were fuelled by news that Mr Zhu Xiaohua, chairman of China Everbright, held

meetings yesterday at the Securities and Futures Commission, the territory's stock market regulator.

The SFC declined to comment on the reasons for the meeting, but it came as part of a series of discussions with senior executives of "red-chip" companies.

Red chips - Hong Kong-listed subsidiaries of mainland groups - have been at the centre of stock market activity in recent months.

Hongkong Electric



ASIA-PACIFIC NEWS DIGEST

FBDC cancels IPO this year

Fort Bonifacio Development Corporation, the consortium which is redeveloping the former US airbase of the same name in Manila, has cancelled plans for an initial public offering this year because of the under-performance of the Philippine stock market.

Mr Ricardo Pascua, president, said the company was unlikely to float 10 per cent of its shares this year as previously announced, but it would launch a bond issue possibly as early as next month. The share issue will now have to wait until the market picks up and would be worth about \$300m, he said.

The company, which owns 214 hectares in the development of a 440ha city, twice the size of Manila's main business centre, made profits of \$40m in its first year of trading to December 1996, partly from pre-sales of property worth \$1.1bn last November. "In four days we sold what we were supposed to sell in five years. This is beyond our wildest dreams," said Mr Pascua. The company needs to raise large amounts of money to stick to its plan of paying \$1bn by 1998 towards the redemption of preferential shares.

Yesterday FBDC signed four joint venture agreements with European companies which will help in the construction of a metropolis worth \$25bn.

Arkady Ostrowsky

Foster's wine unit offshore move

Mildara Blass, the winemaking subsidiary of the Australian Foster's Brewing Group, is to move offshore with a joint venture in Chile and the formation of winemaking operations in California. The Chilean deal is with Vina Santa Carolina. The two companies plan to develop and market jointly a "global" wine brand, aimed mainly at the UK and US markets. The California agreements are for grape supply and use of contract winemaking facilities, with Mildara planning to bring a Californian brand on to the US market, through its US sales network, in 1998-99.

The company, which was acquired by Foster's last year, is one of the biggest winemakers in Australia, and claims to be among the top 10 worldwide.

Nikki Tait, Sydney

Cathay Pacific appointment

Cathay Pacific, Hong Kong's main airline, has appointed Mr Rob Atkinson as finance director to replace Mr Victor Hughes following his retirement. Mr Atkinson was group managing director of Swire Fraser Holdings, a London insurance concern, until May 1.

APF-Asia, Hong Kong

Singapore Airlines deal likely

Singapore Airlines is likely to announce this week the formation of a commercial agreement with Ansett of Australia and Air New Zealand, industry executives said. The agreement is understood to include joint pricing strategies between the airlines and code sharing on routes between Australasia and Europe, via Singapore. Singapore Airlines is also considering taking an equity stake in Ansett but talks on this are at a preliminary stage.

James Kyngie, Kuala Lumpur

MBf merger talks blocked

Malaysia's central bank has withheld approval for MBf Capital, Malaysia's leading finance company, to continue merger talks with Suria Capital Holdings, a state company which owns Sabah Bank, one of the country's smallest banks. Neither MBf nor Bank Negara, the central bank, gave a reason for the decision. The central bank has been pushing for mergers in the banking and finance sector. Officials said last week that the proposed merger would be approved only if it could be proven to be in Malaysia's interest. Analysts said the news would be interpreted negatively for MBf, which has requested that the company's shares remain suspended until further notice.

James Kyngie

Goodman purchase approved

New Zealand's Commerce Commission has approved the purchase by Goodman Fielder, the Australian foods group, of Deffence Food Industries' milling and baking operations in New Zealand. As part of the deal, Goodman will sell its Champion flour mill in Christchurch to Allied Foods, part of the George Weston group.

Nikki Tait

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COMPANIES AND FINANCE: THE AMERICAS

State government seeks to overturn injunction suspending sale of bank

Rio appeals over Banerj decision

By Geoff Dyer
in São Paulo

The Rio de Janeiro state government was yesterday trying to overturn an injunction suspending the privatisation of Banerj, the state-owned bank, which had been scheduled to take place at an auction yesterday.

Lawyers for the state government launched an appeal in a Rio court against the injunction, which was awarded on Monday evening after the trade union of the bank's employees had challenged the future legal sta-

tus of Banerj's pension fund. The auction, which had been scheduled to take place on the Rio de Janeiro stock exchange, would have been the first privatisation of a state bank in Brazil and had been expected to begin a wave of sell-offs of other state-owned financial institutions.

However, before the auction could take place, the state government's plan to assume the bank's debts to the pension fund still had to be approved by the Senate, which was meeting yesterday to discuss the matter.

The Rio government said it still hoped to hold the auction, but analysts said there was a good chance the sale would be delayed until at least today.

Questions over the bank's pension fund have dogged the Rio government's attempts to sell Banerj, and forced it to postpone the first planned auction in December.

Federally-owned Caixa Econômica Federal has set up a R\$2.5bn (US\$2.7bn) loan to cover the deficit in the pension fund. However, there is still some uncertainty among banks about the obligations of Banerj's new owner to the fund.

Only four of the eight banks which pre-qualified for the auction have presented the necessary financial guarantees to allow them to participate — Bradesco, Banco Itaú, BCB and Banco Fictício, a local investment bank which is acting on behalf of an unnamed client.

The Brazilian press reported last week that Caixa's client had decided to withdraw.

It was not clear yesterday whether all four banks would actually bid in the auction, given the uncertainty surrounding the pension fund. In particular, analysts said the positions of Bradesco and BCB were still uncertain.

Other state banks in line to be privatised are Banespa, which is in São Paulo; Credicard, located in Minas Gerais; and the banks of Pernambuco and Santa Catarina states.

The federal government is also planning to sell Banco Meridional, based in the southern state of Rio Grande do Sul.

US cable group to protect price of its shares

By Richard Waters
in New York

Tele-Communications Inc., the biggest cable television company in the US, yesterday took steps to underpin its rebounding share price by in effect underwriting more than \$500m worth of its stock, which is being sold by the estate of Mr Bob Magness, the company's late founder.

The sale of the shares had been prompted by an estimated \$500m tax bill filed by the estate, following Mr Magness's death late last year.

Mr Magness built his small rural Texas cable company, which he founded in 1956 into an industry leader before handing over the chief executive's job to Mr John Malone 24 years ago.

The tax bill had raised the prospect of a large block of TCI's stock being sold publicly, a concern that added to the slump in the share price earlier this year.

TCI's stock has recovered in recent weeks, however, on the back of Wall Street's renewed confidence in cable television companies' prospects.

The competitive threat from satellite broadcasters has appeared to ease with the retreat of Mr Rupert Murdoch, who had planned a full-frontal attack on the market.

The industry was also helped by Microsoft's \$1bn investment in Comcast last week, a deal that strengthened belief in the value of the cable-TV companies' lines into US homes.

Under the arrangement announced yesterday, Mr Magness's estate will sell TCI stock worth more than \$529m to Merrill Lynch and Lehman Brothers. The two investment banks have agreed to hold the shares for two years. At the end of that time, TCI will take on any loss or gain from the sale of the shares.

The deal will leave Mr Malone, who is also TCI chairman, with the right to increase his existing 7 per cent voting stake in the company.

Under a complex swap arrangement, part of Mr Magness's holding of TCI's B shares, which carry supervoting rights, will be given to the company in exchange for 30.5m of the more widely held A shares, and these will be sold to the investment banks.

Mr Malone, meanwhile, will have a right to buy the B shares from TCI over the next two years.

AMERICAS NEWS DIGEST

\$647m charge puts Heinz in the red

H. J. Heinz, the US food company that announced plans for a restructuring earlier this year, yesterday reported net losses of \$229.6m for its fiscal fourth quarter to April 30, compared with net profits of \$170.2m in the same quarter last year. But excluding a pre-tax charge of \$647.2m for the restructuring, the company said it would have made net profits of \$186.2, up 9 per cent from the year-ago period.

Earnings per share would have been 50 cents without the restructuring charge, up 11 per cent from the 45 cents reported a year earlier and 2 cents better than predicted by analysts. Full-year net profits were \$301.9m, or \$722.8m without the restructuring charge, compared with \$659.3m the previous year.

Fourth-quarter sales fell 3.5 per cent to \$2.45bn, but Heinz said this was mainly because it had eliminated inefficient end-of-quarter promotional practices that some food companies use to achieve their sales targets.

In March, Heinz announced plans to cut 2,500 jobs, or 6 per cent of its total workforce, as part of a reorganisation aimed at securing earnings growth of 10-12 per cent a year into the next century. Mr Anthony O'Reilly, chairman and chief executive, said many of the initiatives incorporated in that plan were now well under way.

Richard Tomkins, New York

NCR warns on earnings

NCR, the computer company spun off by AT&T last year, warned yesterday that earnings for its second quarter would not meet Wall Street expectations. Results for the quarter would be an improvement on the same period last year, when the company reported a loss of 18 cents a share, but were set to be below analysts' estimates for net income of about 11 cents a share.

NCR blamed the shortfall on a drop in revenues and profits from services, as well as lower orders and revenues for computer systems. However, the company remained optimistic that for the full year it could improve orders and revenue in core businesses, operating income, and per-share results.

Mr Lars Nyberg, NCR chairman and chief executive, said the company aimed to strengthen its sales and services operations by recruiting nearly 800 new employees this year. The sales force would also be reorganised into dedicated teams focused on professional services, hardware, software, implementation and support services.

"We're on a pathway to transform our business — after a fast turnaround in 1996 — [in order to achieve] an annual revenue growth rate of 9 to 12 per cent" in three years, Mr Nyberg said. "We are confident of long-term success." NCR shares were off 1 1/4, or 4 per cent, at \$29 1/2 in mid-session yesterday.

Louise Kehoe, San Francisco

Oracle in BP software deal

Oracle, the US software company, has signed a letter of intent to acquire a software development group and product from British Petroleum. The group, with about 70 employees — most of them based in the UK — has developed software for gasoline refining, marketing and distribution management.

Oracle will commercialise and upgrade the software for sale to other companies in the energy sector. Terms of the agreement were not revealed, but BP will receive royalties on Oracle sales of the software. Oracle expects to close the deal within 90 days.

The move reflects Oracle's strategic push into vertical industry software markets. Earlier this year the company released software for the consumer goods industry.

Louise Kehoe

Investors shun Mainframe

Investors appeared to shy away from Mainframe Entertainment, a cutting-edge Canadian computer imaging company, on its first day on the Toronto Stock Exchange yesterday despite high expectations for the company, which produces the hit children's computer-animated TV series Reboot. Officials handling Mainframe's initial public offering said the issue had been oversubscribed and they appeared optimistic about the company's prospects, but the Vancouver-based group's share price was down 20 cents from its offer price to \$9.55 at midday in light trading.

Mainframe has attracted strong attention with proprietary software that helps it create detailed, vibrant graphics at a speed unmatched in the industry. Analysts remain excited by the company's prospects of producing a fully computer-generated feature film, an initiative seen as likely to boost Mainframe's share price. The company has acquired an option on a popular children's book and is in negotiations to produce the film.

Scott Morrison, Vancouver

Micron rise fails to impress

Shares of Micron Technology, the US memory chip manufacturer, declined yesterday despite higher than expected earnings for the third fiscal quarter, ended May 29. The company reported third-quarter net income of \$97m, or 44 cents a share, compared with \$58m, or 37 cents, in the same period last year. Earnings were also well above analysts' projections of 39 cents a share.

Revenues increased 26 per cent from \$771m in the year-ago quarter to \$983m, as Micron benefited from a slight increase in memory-chip prices, a reversal of the sharp decline in prices over the past two years. Improved production yields also boosted earnings, the company said. Memory chip sales rose from \$416m a year ago to \$511m. Personal computer sales were up 30 per cent on a year-on-year basis, but declined approximately 7 per cent compared with the second quarter.

Micron's shares were off 5 1/4 at \$41 1/4 yesterday lunchtime after Credit Suisse First Boston downgraded the stock.

Louise Kehoe

Kennecott in Mexico venture

Kennecott, a US unit of Rio Tinto, the London-listed mining giant, and private Mexican miner Minera Tayahuva said yesterday they had signed a joint venture called Kennecott Tayahuva to operate Mexican mines. Kennecott will take control of 65 per cent of 16 of Tayahuva's mines, the companies said in a statement.

Reuters, Monterrey

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Cemex seeks partnerships in Asia

The group aims to expand without worrying markets, says Clare Gascoigne

Cemex, the world's third-largest cement company, plans to increase revenues from Asia five-fold over the next five years — from the current 4 per cent of total sales to about 20 per cent — according to Mr Lorenzo Zambrano, chairman and chief executive.

The Mexican group, whose revenues have grown from 11.48bn pesos in 1990 to 26.52bn pesos (\$3.33bn) last year, is determined to sustain the recent rapid expansion that has brought it global prominence in the sector, behind Holderbank of Switzerland and Lafarge Coppée of France.

Mr Zambrano sees Asia as the group's next target. "There are a lot of young people there needing houses," he said in an interview. He added that Cemex had an instinctive understanding of how Asian markets operated. "Cement markets in Asia and Mexico are very similar," he said. "In Asia, cement is a consumer product; in Europe, it's a commodity product. In Asia, brands matter, and Cemex products sell at a premium; in Europe, they don't."

However, unlike its growth in Latin America and Europe, where it has expanded mainly through acquisitions, the company plans to work with local partners in Asia, rather than buying outright. "We want to increase our footprint, not by having a majority, but by having operating control," said Mr Zambrano.

Such caution follows partly from the unfavourable reaction of the markets to Cemex's most recent move to gain volume by acquisition — its \$700m purchase last year of two Colombian cement companies. Investors were alarmed by the levels of debt Cemex was building up and became nervous about its rapid growth strategy. Shortly afterwards, Cemex was forced to pull a



Looking east: Lorenzo Zambrano (left) and Rodrigo Treviño see cement as a consumer product in Asia, as in Mexico

\$340m equity issue because of a flat share price; by the end of the year, its debt to equity ratio was 53 per cent.

Mr Zambrano defended the purchase. "If we hadn't bought Cementos Diamante, then it would have gone to someone else — so we decided to plunge in," he said. "The timing was unexpected but we knew that the synergies would be enormous. It would have been a very short-term decision to forego the opportunity."

Mr Rodrigo Treviño, the new chief financial officer, also insisted the Colombian venture had not damaged the company financially. "We are a capital-intensive

company, but we have excess capacity in Spain and Mexico, and will have excess in Colombia. We will not have any capital investment to make for the next two to three years, so all our cash flow can be used for acquisitions," he said.

The group has meanwhile made efforts to manage its \$3.9bn debt; interest cover in the first quarter of 1997 was 1.97 times, and will be 2.5 times for the rest of the year. The group plans to buy back up to \$200m of stock in the next 12 months, and has put in place a \$600m revolving credit line to finance addi-

tional purchases without diluting equity.

Interest expenses fell from \$148m in the first quarter of 1996 to \$126m in the first quarter of 1997, and all debt is now dollar-denominated.

Mr Treviño said changes in Mexican accounting would help Cemex convince sceptical investors of its merits. "We are a multinational, but have been adjusting all our figures for Mexican inflation rates," he complained. Now the group is to restate figures according to a basket of currencies.

The disadvantages of being based in Mexico go beyond the accounts. "We are perceived to be

volatile because we are domiciled in a developing market," said Mr Zambrano. "Yet our operating margins are as stable as Coca-Cola's or McDonald's. We have achieved stability by being in several markets at the same time."

Emerging markets are also, he points out, those with the highest growth rates. Yet the investment community view of the company as a risky venture is so frustrating that the possibility of moving domicile has crossed his mind.

"We're not considering it in the short-term — but we do let our imaginations roam," said Mr Zambrano.

Canadian Pacific sells C\$1bn Laidlaw stake

By Bernard Simon
in Toronto

Canadian Pacific has further narrowed its focus on the transport and energy sectors by disposing of a 47 per cent voting and 11 per cent non-voting interest in Laidlaw, the Ontario-based school bus and ambulance operator.

Canadian Pacific raised C\$1bn (US\$724m) by selling its Laidlaw shares to a group of underwriters led by RBC Dominion Securities and Nesbitt Burns. The underwriters will sell the shares on to investors for C\$18.85 each, payable in two annual instalments.

CP expects to post a C\$275m gain from the sale, which marks one of the final stages in its efforts to reverse the diversification of the early and mid-1980s. With interests stretching from metals to an airline, investors at one time consid-

ered CP a proxy for Canada's economy.

Following a series of disposals, the company's main businesses comprise Canadian Pacific Railway, CP Ships, Fording Coal, and a controlling stake in PanCanadian Petroleum.

CP reported first-quarter net income of C\$182m on revenues of C\$2.2bn. Equity-accounted income from Laidlaw was C\$23.2m, up from C\$5.2m a year earlier.

Mr Peter von Opel, analyst at Midland Walwyn in Montreal, estimated that the sale of disposals gave CP access to as much as C\$4bn in cash and debt, without raising its debt-to-equity ratio above 50 per cent.

Mr David O'Brien, CP chief executive, said the Laidlaw sale would achieve the objective of "narrowing our business focus and concentrating our resources on our core businesses."

The company has yet to divulge how it plans to use its war chest. Possibilities mentioned by analysts include a bid for a sizeable US railway company, or a share buy-back. Both CP and Canadian National, its arch-rival, are rumoured to be interested in Illinois Central, a Midwest railroad which would dovetail with their extensive Canadian networks.

CP bought its stake in Laidlaw a decade ago from Mr Michael de Groote, Laidlaw's founder. It was widely criticised for years afterwards for paying a premium for a business it did not understand.

But Laidlaw's fortunes improved, as fresh management moved it away from waste management towards specialised transport. It is now one of North America's biggest school bus and ambulance operators.

Motorola plans global satellite network

By Richard Waters

Motorola, the US maker of telephone equipment and semiconductors, is planning the latest in a growing line of ambitious global satellite networks, it emerged yesterday.

The Chicago-based company's plans are a long way from fruition, though, since it has yet to line up any financing or partners for the project.

The satellite network, to be called Celestri, would compete in one of the fastest growing parts of the global communications business: the provi-

sion of complete voice, data and video communications to large companies that operate around the world.

Other customers for such a service could include traditional telephone companies and people in remote locations that have a heavy need for high-speed internet access and other broadband services — for example, telecommuters working from home.

The Motorola plan echoes a rival system, Teledesic, which is being created by Mr Craig McCaw, the entrepreneur who built the largest US cellular telephone business

before selling out to AT&T. That service, which also has the backing of Microsoft and Boeing, is due to begin in 2002 — the same date that Motorola is believed to have targeted for Celestri.

Like Teledesic, the Motorola system is expected to rely heavily on a network of low-orbit satellites, which are expensive to launch and maintain but which provide a higher quality service than traditional high-orbit satellites.

The emergence of these and other planned services — including a joint venture between Alcatel-Alsthom

and Loral — has prompted concerns in some quarters over whether demand for international broadband data communications will grow enough to justify all these competitors.

Motorola itself already owns 21 per cent of Iridium, a company which launched the first of its satellites last month. Until the other systems are up and running, Iridium hopes to sell a mobile telephone service to customers anywhere in the world.

The company began as a Motorola unit, before other partners were brought into the venture.

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The reason for such termination is that ÖKB as Depository has been served notice of termination by Gedeon Richter pursuant to the agreement dated 27 September 1994, as amended by the supplemental agreement dated 16 November 1995, between ÖKB, Gedeon Richter, Creditanstalt-Bankverein ("CAB") and Budapest Bank Rt. Gedeon Richter has appointed Bank of New York, New York ("BNY") as new Depository. BNY offers the investors having interests in the GIC to exchange such interests for "Registration S Depository Receipts" ("GDRs") issued by BNY. The conditions of receipt of GDRs are available from CAB, Head Office, Schottengasse 6-8, A-1010 Vienna, Austria. The GDRs will be listed on the Luxembourg Stock Exchange and on SEAQ International.

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COMPANIES AND FINANCE: UK

Thames raises pay-out 22%

By Jane Martinson

Thames Water warned yesterday that it could introduce a hosepipe ban this summer as it announced a 22 per cent increase in its annual dividend payout.

The London-based utility's announcement came only weeks after the new Labour government stepped up its pressure on the sector to lift investment and reduce high leakage rates.

It coincided with the publication of the annual report of Ofwat, the industry regulator, expressing concern about "unjustifiably high dividend increases" which undermine investment.

Ofwat said it was not convinced the industry's divi-

dend increases were "sustainable". The regulator is preparing guidelines for its next price review.

Sir Robert Clarke, Thames' chairman, said: "I think what we have done is entirely justifiable." The group argued that half of the dividend increase was due to the effect of a reduced capital base after last year's 10 per cent share buy-back. A turnaround in its non-regulated division, still a small part of its business, also contributed to the increase, so that the core water profits provided just a quarter of the rise, he said.

The group also warned that investment levels could be put at risk by "an excessive" windfall levy. The gov-

ernment is expected to unveil a windfall tax on privatised utilities next month.

Thames was also criticised by Waterwatch, the pressure group, for its performance on leakage yesterday, one of the industry's worst. Thames claimed that after a £200m reduction programme its performance had improved 9 percentage points to 30 per cent this year. It also announced a free leak detection and repair service yesterday.

However, hosepipe bans would be necessary unless there was significant rainfall over the next few weeks. Rainfall over the past year has been at only 70 per cent of average levels. A ban was last imposed six years ago.

Pre-tax profits jumped 53 per cent from £228.7m to £371.8m (£806m) in the year to March 31. Last year's figures were hit by a £97.2m exceptional charge to reverse a disastrous overseas policy. The underlying increase was 19 per cent.

Thames held out the possibility of returning more money to investors yesterday. Mr David Luffman, finance director, said: "Clearly there is some capacity in the balance sheet." With net debt at £288m, gearing stood at 41 per cent at year-end. The group has said that interest cover could be cut to 4 times, down from 7.8 last year. However, he said the group would wait for details of the windfall tax.

Downgrades help depress NatWest

By George Graham and John Gapper

National Westminster Bank's shares slipped again yesterday, as stockbrokers downgraded their forecasts for the bank's performance in the wake of Monday's profits warning.

NatWest warned that first-half profits at NatWest Markets, its investment banking division, were likely to be "significantly lower than for the same period last year", so that group profits in the six-month period were not likely to exceed £770m.

That led analysts yesterday to reduce their forecasts for the full year to £1.72bn-£1.78bn, where some had previously expected profits of more than £2.1bn.

Even Dresdner Kleinwort Benson, a consistent seller of NatWest shares over the past 18 months and already responsible for the lowest forecast in the market, cut its estimates further, from £1.78bn to £1.72bn.

NatWest shares fell 9 1/2p to 74 1/2p yesterday, after losing 5 pence on Monday. The fall was more muted than for some other banks; Barclays dropped 17 1/2p to £1.95, and Lloyds TSB 20p to 60 1/2p. Investors have been taking

stock of NatWest's statement that it would be carrying out an extensive review of NatWest Markets' operations following the resignation of Mr Martin Owen, the division's chief executive.

But some brokers said NatWest appeared to be preparing for relatively minor adjustments rather than a wholesale reduction in its investment banking ambitions.

"That is exactly what the stock market doesn't want to hear," one analyst warned. NatWest said the focus of the review was on improving risk controls after the discovery in March of options mispricing that cost the bank £77m.

NatWest Markets insisted the bank was not pulling out of the eurobond market, but acknowledged that it had said nothing about whether it would cut staff.

NatWest separately disclosed details of the creation of a new European investment banking group, which will be headed by Mr George Magan and Mr Alton Irby, heads of its corporate advisory business. It will include acquisition finance and the debt and equity origination operations within NatWest Markets.

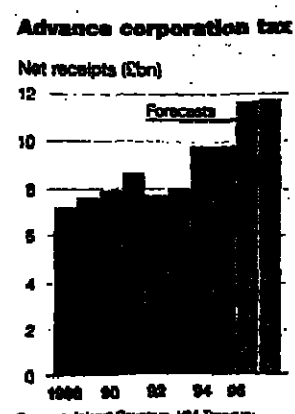
LEX COMMENT
ACT

One oddity in the Treasury's leaked thinking on advance corporation tax (ACT) seems to have gone largely unnoticed. This is the peculiar suggestion that, while keen to abolish the ACT credit, the Treasury apparently has no intention of abolishing the corresponding tax. If this is so, it should urgently rethink. If the credit were abolished, the tax would lose its only purpose. It would become a pointless complication. But what about the cost of abolition? This should hold no terrors. Essentially, the Treasury could have two concerns.

One is that wholesale scrapping of ACT would have a one-off timing effect, with billions of pounds in corporation tax revenues delayed by up to nine months. But this is little more than a cosmetic worry; the markets would rightly regard the resulting one-off blip in the public finances as just that.

Then there is the trickier problem of companies, mainly with large foreign earnings streams, which are overtaxed because they pay ACT they cannot claim back. But if the Treasury is going to hang on to this wholly indefensible source of extra revenue, it should think again. Currently, companies are often reluctant to use the obvious solution - foreign income dividends (FIDs) - because pension funds cannot claim tax credits on them.

But if dividend tax credits were abolished, this hurdle would be removed. FIDs would presumably flourish and the government's convenient little side-come, surplus ACT, would largely vanish.



BSkyB advised to quit as equity investor in BDB

By Raymond Snoddy, Media Correspondent

British Sky Broadcasting's equity stake in the British Digital Broadcasting consortium would rule the consortium out of the contest to launch commercial digital terrestrial television in the UK, the Independent Television Commission has said.

It has decided that the consortium - currently composed of BSkyB, Carlton Communications and Granada Group - would concentrate too much power in too few hands in its present form.

The consortium is being challenged for the right to three "multiplexes", or blocks of frequencies, by

Digital Television Network, a company run by CableTel, the cable television and broadcasting services group. United News and Media, publisher of the Express newspaper, has said it will join the group if it wins.

Under broadcasting legislation, the ITC must ensure any franchise award would not limit competition. It has consulted all the competition authorities, including the Office of Fair Trading and Ofcom, the telecommunications regulator, and the European Commission.

Talks are now going on between the shareholders of BDB to decide how to meet the demands of the ITC.

Two options are being considered. One is that BSkyB

pull out of the consortium and receive compensation. The other, more likely, is that BSkyB negotiate a deal merely to supply Sky Sports, Sky Movies and Sky One, its most popular channels. It would then no longer be an equity investor.

British Sky Broadcasting announced yesterday that Mr Sam Chisholm, chief executive of British Sky Broadcasting, the satellite television group controlled by Mr Rupert Murdoch's News Corporation, is stepping down at the end of the year on medical advice.

He will be replaced by Mr Mark Booth, the 40-year-old chief operating officer of JSkyB, News Corp's Japanese satellite TV venture.

Eurotherm hampered by sterling

By Christopher Price

The strong pound continued to hamper Eurotherm in the first half, with the industrial controls maker reporting a 21 per cent fall in pre-tax profits to £14.7m (£34m).

Sales, some 80 per cent of which are made outside the UK, slipped 3 per cent to £99.5m for the six months to April 30. At constant currency rates, sales rose 6 per cent, while profits were similar to last year's £18.7m.

Mr Claes Hultman, the chief executive who beat off a boardroom coup last year, said the sterling situation was "uncomfortable, but something we are adapting to".

This had prompted the reduction of some of the company's prices, with a consequent effect on margins. However, this had been offset to some extent by the success of new products, he said. Among these were a new series of temperature controllers and graphic recorders, which Mr Hultman said had made "significant in-roads" into their markets.

Eurotherm reiterated its desire to carve out a larger presence in south-east Asia and North America. At the year-end, the company had earmarked up to £100m for acquisitions.

Market cringes as chancellor ponders dividend tax credits

Ross Tieman considers the implications of a new fiscal regime

Leary-eyed UK investors are awakening slowly to the threat posed by the chancellor, Mr Gordon Brown, as he raises an axe over the tax credit pension funds receive on company dividends.

The FTSE 100 index fell 62.9 to 4,682.2 yesterday amid assertions that if Mr Brown followed Treasury advice to abolish the credit in his Budget in a fortnight's time, shares in UK companies could be worth about 10 per cent less than under the current tax regime.

Mr Brown wants companies to pay out less to their shareholders and instead invest the money in research, development, and modernising production equipment.

The Treasury, and some independent advisers, have told him that abolishing the pension fund tax credit would achieve that goal, and top up the Whitehall coffers by about £6bn (£8.15bn) into the bargain.

But it may leave millions of workers with pensions facing double taxation and pose difficulties for companies committed to keeping employee pension funds in credit. It could also have a significant impact on share prices.

The faculty and institute of actuaries and the Institute of Chartered Accountants yesterday urged the chancellor to retain the credit.

At present pension funds can claim a 20 per cent credit on taxed dividends from their investments. This ensures that pension contributions are untaxed until the pension is paid, when they are taxed as income.

This principle is especially important to the 10.6m employees who contribute to

occupational pensions, and the 7m who already receive them.

Such schemes take two forms. Under defined benefit schemes, companies undertake to ensure employees receive a given monthly pension upon retirement, and to make up any shortfall in the fund. Although still covering the majority of occupational pension scheme members, these are gradually being superseded by defined contribution schemes, where the pay-out depends upon investment returns earned from specified contributions.

If the chancellor removes the tax credit from defined benefit schemes, companies could be obliged by law to make up any shortfall arising in the fund. The cash would have to be deducted from pre-tax profits.

"At the moment, most company pension funds have got healthy surpluses," says Mr Peter Hobbs, head of the tax faculty at the ICA. But who can say how those conditions might change?

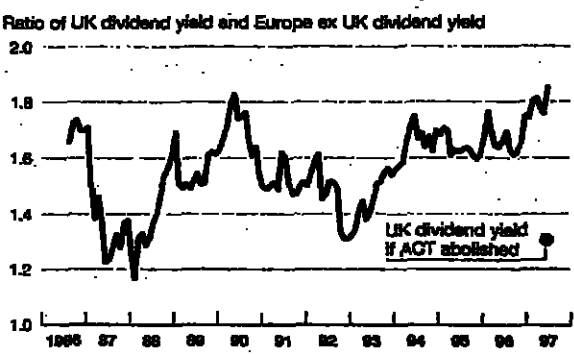
As for the effect upon defined benefit schemes, Knap, the publishing company, has already warned that benefits to pensioners will fall by 15 per cent if the scheme's dividend income is taxed.

Because abolition of the tax credit would reduce the net dividend paid by companies to previously tax-free investors, it could cut the value of the companies themselves.

On the simplest arithmetic, since half the stockmarket is owned by tax-exempt investors, and the dividend credit is 20 per cent, then abolishing the credit would reduce the value of quoted companies by 10 per cent.

A study by ABN AMRO

UK dividend yield versus Europe



Hoare Govett, using option prices, suggested the market was already discounting a cut in the credit to 15 per cent next year, and to 10 per cent in another two to three years' time.

Mr Mark Brown, the broker's strategy chief, says the market would therefore need to fall another 5-7 per cent to take full account of abolition, and "we have had 2 per cent of that" since Monday, when the chancellor's intent became clear.

Mr Ian Scott, strategist at Lehman Brothers, points to the underperformance of the UK market this year, compared with European rivals, as further evidence that a sizeable cut in the dividend credit is already being factored into share prices.

Dividends paid by UK companies have historically been higher than those paid by most European rivals, as the chart shows. Abolition of the tax credit might trigger a re-rating, but not a rout, Mr Scott believes. "If you were to take off the 20 per cent tax credit from the UK yield the ratio would fall to the bottom of its historic range by not out of it," he says.

Part of the market's hesitancy arises from uncertainty about any accompanying steps the chancellor might take to promote investment, such as offering companies tax relief on capital equipment - a step that would enhance corporate profitability.

Critics of the present system argue that UK institutions need to be weaned from their dependence upon dividends, and that the market will not fall because investors from overseas will make up any shortfall of share buyers.

Even the case that hefty dividends undermine investment is open to challenge. Initial findings from unpublished research carried out for the National Association of Pension Funds at City Business School suggest companies that pay out a high proportion of their profits in dividends also have higher levels of spending on research and development than those that don't.

Only on one point are all commentators in agreement: no-one can be sure what all the effects of abolishing the tax credit would be. wh

PowerGen sees earnings abroad

By Simon Holberton

PowerGen, Britain's second biggest fossil fuel generator, yesterday said that it expects its foreign investments to produce trading profits of about £200m (£320m) by 2003.

In a presentation to investors and analysts Mr Deryk King, group managing director, said that, if contributions from PowerGen North Sea and PowerGen CHP were included, trading profits from new business

operations would come to about £250m a year.

PowerGen recently announced three international power projects (IPPs) in Thailand, Indonesia and Hungary.

It has seven other international investments, mostly in greenfield generation projects.

However, the company's biggest investment so far is the 1,450MW Yallourn power station in the La Trobe valley in Victoria, Australia. PowerGen owns 49.9 per cent

of the power station that cost £1.3bn.

PowerGen has six investments in combined heat and power amounting to 306MW of energy and 801MW of heat. It has invested £110m in these projects to date and has further investments to make in them of £141m.

The company has invested £344m in three upstream gas projects. Like the Energy Group and Enron, the US energy company, PowerGen wants to be in power trading.

RESULTS

Company	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Applied Electronics	Yr to Mar 31	9.38 (10.8)	0.294 (0.178)	0.811 (0.71)	Jul 1	0.8	10.5	8.7
Atlantic Telecom	Yr to Mar 31	8.59 (10.5)	2.854 (2.58)	7.35 (7.1)	Jul 1	0.7	10.5	8.7
Bondage Post	Yr to Mar 31	80.8 (85.5)	15.1 (13)	21 (17.4)	Aug 1	5.9	2.85	2.85
Cardiff Property	6 mths to Mar 31	1.05 (0.35)	0.21 (0.12)	5.9 (3)	1 Aug 19	0.7	19	14.5
Carphright	Yr to Apr 26	233.9 (185.3)	32.2 (25.2)	28.5 (22.3)	11.5	Aug 29	4	9
Eurotherm	6 mths to Apr 30	99.5 (102.2)	14.7 (18.7)	10.8 (13.4)	4.2	Aug 8	0.4	1.4
Fair Hillson	6 mths to Mar 31	74.9 (71.3)	4.49 (3.3)	3.4 (1.4)	0.5	Oct 1	4.3	6.8
Glennan Castles	Yr to Mar 31	4.9 (-)	0.411 (-)	4.12 (-)	1.5	Aug 15	1.5	4.5
Hammond Foods	Yr to Mar 31	765.8 (798)	32.34 (34)	10.86 (13.9)	4.5	Jul 1	8	15
Heathrow Airway	6 mths to Mar 31	29.3 (28.4)	1.96 (0.84)	5 (3.95)	1.5	Aug 12	3.8	4.6
ICE Bank	6 mths to Apr 30	53.5 (48.4)	7.05 (5.85)	38.1 (23.5)	8	Jul 1	2.5	7
Jamieson Group	6 mths to Mar 29	9.22 (8.95)	0.45 (0.26)	4.5 (3.1)	3	Aug 12	1.5	4.2
London March Sea	Yr to Mar 31	32.76 (34.8)	32.3 (30.4)	10.19 (15.49)	40	Aug 18	9.01	14.48
Mandeville Estates	Yr to Mar 31	20.4 (18.1)	8.39 (7.89)	122.5 (115.5)	30	Aug 18	1.8	7.3
Port & Sunderland	Yr to Mar 29	151 (138.2)	7.474 (18.8)	41.9 (30.3)	1.21	Jul 31	2.35	2.35
Rebus	Yr to Mar 31	66.4 (80)	5.816 (1.37)	4.91 (0.33)	1.2	Jul 31	19.1	34.4
Sherriff	6 mths to Mar 31	14.2 (12)	0.324 (1.24)	1.9 (8)	2.35	Aug 15	1.5	2.3
Thames Water	Yr to Mar 31	1,287 (1,194)	371.5 (228.7)	82.8 (50.7)	23.2	Aug 15	5.3	17.5
Thames Valley	Yr to Mar 31	50.6 (47.1)	4.56 (3.51)	8.81 (8.5)	1.9	Aug 29	1.35	1.85
Wellson & Philip	6 mths to Apr 27	297.2 (278)	7.14 (5.78)	11.3 (12)	5.7	Aug 1	1.35	1.85
Wellson	Yr to Mar 31	128.5 (130.3)	5.06 (10.17)	2.47 (5.7)	1.4	Aug 29	1.35	1.85

Investment Trusts	NAV (p)	Attributable Earnings (p)	EPS (p)	Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abstract Convertible	Yr to June 30	- (-)	- (-)	- (-)	Jul 15	1.6	-	6.5
ABC Standard Co	Yr to Apr 30	209.49 (216.59)	3.61 (2.72)	3.42 (2.57)	1.75	Jun 6	1.53	2.8
ABC Standard Co	6 mths to Apr 30	111.3 (109.4)	0.871 (-)	0.25 (-)	-	-	-	0.95
Second Co	6 mths to Apr 30	74.3 (70.3)	0.305 (0.403)	0.6 (-)	-	-	-	-
Tennant	12 mths to Apr 30	108.7 (-)	0.096 (-)	0.61 (-)	0.2	Sept 15	-	0.2
Whitson	6 mths to Jun 30	- (-)	- (-)	- (-)	3.05	Jul 1	3.05	6.65

Shareings shown basic. Dividends shown net. Figures in brackets are for corresponding period. After exceptional charge. After exceptional credit. Yr increased capital. After stock. After second interim in Nov of a final. Excludes special of 5.1p. Excludes rental income. Excludes proposed special of 10.5p. Comparisons restated. As at Oct 31.

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Notice of Interest Rate
To the Holders of
The United Mexican States
Collateralized Floating Rate Bonds Due 2019

NOTICE IS HEREBY GIVEN that the interest rate covering the interest period from June 18, 1997 to December 18, 1997 are detailed below:

Series Designation	Rate	Interest Amount	Interest Payment Date
DMK Floating Rate	2.000% (360/360)	DMK 80.17 Per DMK 1,000	December 18, 1997

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June 18, 1997
CITIBANK, N.A., Corporate Agency & Trust, Agent Bank

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Treasury Services plc
CNO-TEC Linked
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The relevant interest payment date will be September 22, 1997.

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Notice is hereby given to the Unitholders that Korea Investment Trust Co. has declared a distribution of Won 385,000 per IDR of 1,000 units payable on June 25, 1997 in the Republic of Korea.

Payments of coupons No. 16 of the International Depositary Receipts will be made on July 9, 1997 in US dollars at one of the following offices of Morgan Guaranty Trust Company of New York:

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- New York, Wall Street 60
- London, Victoria Embankment 60
- Frankfurt, Boenestrasse 2-4

The amount of dollars shall be the net proceeds of the sale by the Fund of the won amount to a foreign exchange bank in the Republic of Korea at its "spot" rate on July 9, 1997.

The proceeds of the coupons presented after July 10, 1997 will be converted into US dollars at the prevailing spot rate of the day following their presentation, and will be distributed to the Unitholders in proportion to their respective entitlements and after deduction of all taxes and charges of the Depositary.

Holders residing in a country having a double taxation treaty with the Republic of Korea may obtain payment of their coupons at a lower rate of the Korean non-resident withholding tax, on condition they furnish either to the Depositary or through one of the designated sub-paying agents a certificate showing their residence together

INFORMATION TECHNOLOGY

Dos finds new champions

Microsoft developed MS-Dos, the personal computer operating system, in 1981. The text-based interface remained one of the best-selling pieces of software until Windows 95 was introduced - and even that is based around Dos.

As an operating system, sitting between software such as a word processor and the computer's internal commands, Dos leaves much to be desired, and has now mostly been superseded by Windows. But it was designed when memory was scarce, processors expensive and screens very basic - exactly the problems facing makers of so-called embedded systems, which are constrained by size and the need to be very cheap.

Devices such as set-top boxes, providing home banking or internet access through the television, or point-of-sale terminals in shops, are priced for the consumer market and cannot afford the 32MB of memory and powerful multimedia processors now common in home PCs.

Microsoft has abandoned MS-Dos but two rivals, International Business Machines' PC-Dos and Caldera's OpenDos, formerly Novell Dos, are trying to revive the operating system with web browsers that allow internet terminals to run with as little as 4MB of memory. And at £25 for the memory, and Intel 80486 processors selling for very little, handheld PCs and internet-connected phones can have the power of a three-year-old computer.

Unfortunately for IBM and Caldera, a private US company, Microsoft has just made its out-of-court version of Windows 95, Windows CE, available for embedded systems. But Caldera's Jon Williams points out: "There is no other operating system in the world that has such a high level of programming

knowledge," he says. "Cost is one of the most important things in this market and products using OpenDos can cut out the expensive graphics support and memory which Windows needs."

Microsoft claims an advantage because of the dominance of Windows 95: software companies can relatively easily convert their existing software to run on embedded devices. But while Windows CE has been enthusiastically adopted for handheld computers, the same may not be true for embedded devices: Excel or Word are not needed on an internet set-top box.

John Galvez, OEM marketing manager at IBM, says Dos has a future: "The memory requirements of Dos are so much less [than Windows CE] and system requirements are all-important to the embedded marketplace. We believe Dos will still be around in five years time."

The first appearance of IBM's Dos in a UK handheld computer will be the all-weather PC from Radix, due to launch soon. Caldera already claims a big sale, to "one of the top five consumer electronics manufacturers", and Williams is taking an aggressive marketing strategy, focusing on potential customers that would take more than 100,000 copies. Caldera is not conceding any ground to Microsoft: "Windows 95 owns the desktop today, but the embedded systems marketplace is soon going to be 10 times the size."

Ironically, Caldera is suffering from the unpopularity of Microsoft's Dos. "The name 'Dos' gives us some problems," admits Williams, "but the people we have taken the product to have been very happy with it."

James Mackintosh

Using the Net • David Bowen

Open door for online house sales

Real estate agents can adapt to the benefits of selling online or miss out on a big opportunity

Sally Thompson is a 67-year-old who is moving with her husband from Las Vegas to Florida. She has found a new house and is now trying to sell her own. Visit www.100.com/100/ on the world wide web to see it. Thompson belongs to a rapidly growing group of Americans who use the internet to buy and sell property (real estate). She bought her Florida home by looking at the web page of a "buying agent," Patti Amber, and contacted her by e-mail. Amber used her local contacts to draw up a shortlist, which she displayed on a private area of her website. Thompson chose the one she wanted to see, flew to Florida, and within two days had struck a deal. "In the old days I would have spent a week driving around," she says.

She admits that she is unusual for her age, being "something of a computer geek," but insists that "within a year or so internet real estate trading really will take off". She created her own site with the help of a word processing program and a digital camera - if she sells the house, she will have saved herself 6 per cent commission.

When the scalps garnered by the internet are put on display, many people believe property agents will feature prominently. The ability of the internet to bring people together directly threatens all intermediaries, but few are as vul-

nerable as real estate agents. Unlike a newspaper advertisement, a website can carry vast amounts of information - not just about the house but about the area.

Add video (coming soon), interactive maps and mortgage calculators, as well as transmission of documents by e-mail, and the internet is a powerful tool - or a threat.

Even in Europe, which is well behind the US, some realtors are already nervous. "If I had the option of walking around 15 agents or looking at them all from one site, I know which I would choose," says David Taylor, area manager of Chestertons Residential in London.

But intermediaries will not necessarily lose out. Although private sales will inevitably increase (the Able Owners' Network, www.owners.com, lists 18,000 privately offered properties in the US), intermediaries which adapt can thrive. "I've handled millions of dollars worth of property on the internet," Patti Amber says. "I don't do conventional advertising any more."

Amber has just sold a house to a client from Japan. He used the internet to cut his choice from thousands of properties to a few dozen, spent three days driving round Florida with Amber, then put in an offer. The technology was necessary - but so was the human touch. Jim Swann, administrator of Ired, an internet property listing site, (www.ired.com), believes that is why buying agencies are thriving: "They really can take advantage of the internet," he says.

Agents are already using the technology to enhance their service. Amber will, for example, take a set of digital 3D photographs and display them on a private web area for one client.

Conventional real estate agents in the US are busy setting up websites to try to protect their position. Coldwell Banker, a franchise operation with 2,600 offices, has relaunched Coldwell Banker



Online (www.coldwellbanker.com) as the centrepiece of its marketing effort. It lists 140,000 properties and, the company says, "is a huge media for us, a very big success".

The volume of properties now available online makes the web a reasonable starting point for any American looking to move. Ired lists 13,000 US property sites: the biggest belongs to the National Association of Realtors (www.realtor.com), with 800,000 homes fed in by its members. HomeScout (www.homescout.com), run by the Cobalt Group, a US internet marketing company, carries 440,000 properties from 200 agents.

In Europe, the story is different or several steps behind. The UK, the most advanced European market, has several sites similar to HomeScout. One of the larger ones is Internet Property Finder (www.propertyfinder.co.uk), but ask it to find a house in London - anything over £50,000 - and it lists just 64. IFF has fewer than 1,200 properties listed - it seems unlikely that more than 20,000 are listed on all UK websites.

That does not mean it will not

become a serious tool for the general buyer. "This year has been a learning curve," says Judith Vosper, product manager at Woolwich Property Services. "We have gone in fairly cautiously, but in the next year we will be more aggressive."

The Woolwich site (www.wps-property-seeker.co.uk) has been expanded to cover a selection of homes from all branches; eventually, Vosper hopes, Woolwich will have an intranet that automatically carries all properties from all its offices.

Other companies, including Chestertons and Knight Frank, are also moving beyond the pilot stage after being impressed by the initial response, particularly from abroad. Overseas sales have been the one area of real progress. Upmarket London estate agents have received much interest from Asia, especially Hong Kong, and there are reports of sales completed entirely online. Prestige Properties International (www.zynet.co.uk/ukhomes) has matched up at least one £1m property with a Scandinavian owner.

One of the few British agencies to have integrated its websites into

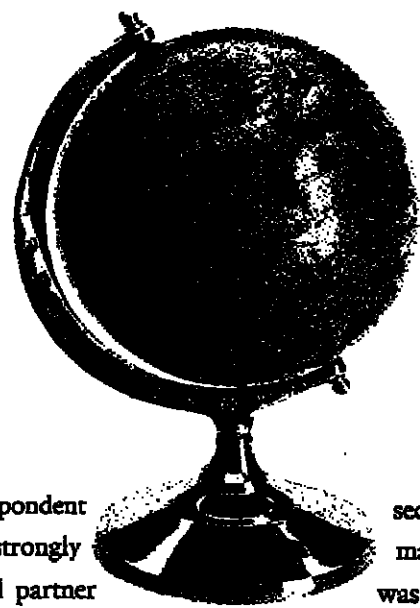
its normal marketing operation is Chancellors, based in Ascot, Berkshire, (www.chancellors.co.uk) - its customers come both from overseas and from the US-influenced technocracy of the area.

But there is widespread agreement that there must be fewer, bigger sites if critical mass is to be reached in the UK. "I think we will end up with a couple of big brand sites," says Ed Butcher of Red Fuse, which set up the Woolwich site. First, though, traditional jealousies must be suppressed.

It now seems that two sites will emerge. The more forward-thinking agents are concerned by this. "I'm not bothered particularly which way we go, but it is important we go down the same route rather than letting outsiders take over," Taylor says. Would Woolwich and Halifax, say, be prepared to link up on one site? "I'd be a little surprised if [Halifax] wanted to," says Vosper. "But I would listen to what it had to say."

David Bowen edits Net Profit, an internet business newsletter. (www.net-profit.co.uk).

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Safe delivery of electronic documents

A new program called Posta, which operates over the internet, finesses the failings of electronic mail attachments. The problem is a serious one: attachments, documents which are attached to e-mail messages, often arrive garbled or not at all because of software incompatibilities.

Posta, a document shipping system which sits on the computer system of an employer or internet service provider, promises more reliable delivery. Rather than the document itself, the recipient gets an e-mail notice with a link to a specially created web address for the file. The service, which tracks when a document is accessed, has many applications, such as recording the delivery of documents and auditing the readability of electronic newspapers.

Tumbleweed Software, US: web: www.posta.com; e-mail: info@tumbleweed.com; tel: 415 369 6790

Software finally finds its voice

Some software can interpret the way people normally talk; some can understand not just the vocabulary of specialists such as doctors and lawyers, but everyday language; but no commercial voice recognition product has been able to do both.

Until now, claims Dragon Systems, one of the leading developers. It says NaturallySpeaking, launched this month at an introductory price of \$299 in the US, will transcribe continuous speech at about 100 words per minute, making only a few errors for every 100 words after the software has been "trained".

Dragon will not have the market to itself for long: in August, IBM is bringing out ViaVoice, a \$199 program which can recognise continuous and general speech.

Dragon Systems, US: web: www.dragonsys.com; email: info@dragonsys.com

Watching brief



Improved resolution for displays

A new product from Samsung Electronics of South Korea promises to accelerate the development of high-definition flat-panel displays.

Its new liquid crystal screen, which it claims is the highest resolution commercially available, crowds 1m pixels or dots on to a 2.3in display. This density, achieved by applying semiconductor development technology to thin film transistor LCDs, is equivalent to 430,000 pixels per square inch.

This resolution, close to that of ink on paper, would represent a breakthrough if applied as Samsung plans to full-size laptop screens by 1998.

While semiconductor chip performance doubles about every 18 months, the definition of commercial flat-panel displays takes more than five years to improve to the same degree.

Samsung, South Korea: web: samsungelectronics.com; tel: 2 727 7838

When laptop mobility meets speed

A neat solution for the laptop owner wanting the speed of the corporate network at work, but the mobility of dial-up access on the road: Xircum has demonstrated a PC card which can handle a connection to an ethernet internal network at 10 megabits per second (mbs) or 100mbs as easily as it can a link over a telephone line at a more modest 56kbs (thousand bits per second).

Xircum, US: web: www.xircum.com; tel: 805 876 6932

How to win at the web paperchase

Adobe, the image software developer, and Hewlett-Packard, one of the leading manufacturers of scanners, want to take the hassle out of posting paper documents on the web. It is a complicated process, requiring a scanner and

software which converts the image into a file in the portable document format, and a product such as Microsoft Index Server 1.1. The companies have made these work together so that, in principle, a document can be scanned, converted into Adobe's portable document format, indexed so that it can be searched, and posted to a website - all with a single click.

Hewlett-Packard, US: web: www.hp.com/info/scan-to-web

Recordings made in a flash

Flash memory, an advanced memory chip which retains data even when the power is off, may have failed to live up to the excitement it generated in the early 1990s, but is now beginning to come into its own. A unit of Toshiba, the Japanese electronics company, is launching a voice recorder which can record up to an hour of sound in flash memory rather than tape. Flash memory, as well as being less bulky than cassette, has no moving parts and is less of a drain on a recorder's battery. Toshiba Video Products' DMR-60 model is one-third the weight of a microcassette recorder.

Program that mines gold from data

Data mining, the computer-assisted extraction of useful patterns from huge mounds of raw data, can be as useful to securities traders as the technique is to retailers and banks.

Performance Trading Technologies' recently updated Profile Analyzer, a software product for the Windows NT operating system, is a market database which allows users to judge the success of their trading ideas.

Traders can ask in plain English, for example, how the market has performed on all days on which employment figures were announced.

Performance Trading Technologies, US: web: www.ptt.com; tel: 212 972 1702



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INTERNATIONAL CAPITAL MARKETS

Hopes for Emu help lift Italian BTPs

GOVERNMENT BONDS
By Michael Lindemann
in London and John
Labate in New York

Most European bond markets headed lower yesterday, while US Treasuries were hit by increased production data.

Italy was the only exception, with a rise in the price of BTPs reflecting investors' belief that the European Union summit in Amsterdam had reached agreement on plans for a single currency.

Mr Heinz Gunasekera, bond analyst at UBS, said delays to Emu had been factored into hard-core European bond prices before the

weekend, helping them upwards, but were now being discounted given the Amsterdam agreement.

"An agreement, especially for a soft Euro, is bad news for bonds, for instance," he said.

GERMAN BONDS reacted accordingly. The September bond future lost 0.39 to settle at 101.33 and underperformed against US Treasuries. The spread of Treasuries over bunds tightened 3 basis points to 80 points.

Mr Gunasekera said German domestic investors had been buying bunds but international investors remained wary because of Emu confusion. They were eyeing Danish bonds as an alternative or switching to the dollar

bloc. Gilts, he said, remained a worry in the short-term because of concerns about the UK Budget on July 2.

UK Gilts were also subject to profit-taking. Although they started the week well, following reports that equities could be hit by the July budget, sentiment seemed more mixed yesterday.

Mr Huw Roberts, European bond strategist at NatWest Markets, said gilts could also feel downward pressure if Mr Gordon Brown, the UK chancellor, did not do enough to slow down consumer spending and ease fears of further interest rate rises.

Today's May retail sales figures would also give a bet-

ter indication of whether windfalls from building society listings had contributed to consumer spending. Mr Roberts said. The September gilt future settled at 114.4, down 0.1.

FRENCH OATs also slipped, with the September notional future settling 0.26 lower at 128.94.

SPANISH BONO September futures fell 0.16 to settle at 116.40 while in the cash market the yield spread over bunds tightened three basis points to 65 points.

ITALIAN BTPs reflected relief that the Amsterdam summit had been able to keep Emu, and Italy's hopes of joining it, on track. The September BTP future rose 0.40 to settle at 132.55.

An unexpected rise in industrial production figures sent US TREASURY prices downwards in the morning. By mid-session the benchmark 30-year bond price had recovered some lost ground, falling 1/4 and pushing the yield up to 6.70 per cent. The two-year bond price fell 1/4, yielding 6.04 per cent.

April's industrial production figure was revised upward to a 0.3 per cent increase from an earlier reported unchanged level. In addition, May industrial production rose 0.4 per cent.

"This is a modestly stronger picture than what the consensus expected," said Mr John Lipsky, chief economist at Chase Manhattan. Treasury bond investors

were also keenly watching capacity utilisation movements, which for May moved upward to 83.7 per cent, their highest reading since late 1995. Further rises could lead the Federal Reserve to increase interest rates at its meeting in early July.

In other economic news, housing starts for May dropped 4.8 per cent, surprising forecasters, who had predicted a 0.7 per cent decline for the month.

The consumer price index for May rose a mere 0.1 per cent, in line with economists' expectations.

"A lot of people were prepared for this," said Mr John Spinnello, government securities strategist at Merrill Lynch.

BNG \$1bn deal aimed at wide investor base

INTERNATIONAL BONDS
By Edward Luce

Strong liquidity and investor bullishness produced another bumper day for the dollar yesterday, with more than \$400 in new issuance.

This took the week's total to more than \$7bn - roughly half the record volume of new dollar bonds issued in the first week of June.

"There is a very strong undertone of bullishness on US interest rates at the moment," said one syndicate official. "If you combine this with the high level of redemptions in the euromarket and strong liquidity from the US, Europe and Asia, you can see why there is so much supply."

BNG, the Dutch municipal finance group, led the way with a \$1bn issue targeted at a much wider investor base than usual. The five-year

bond, which was priced to yield 12 basis points over Treasuries, was designed to lessen BNG's reliance on its traditional Swiss/Benelux retail investor base, said bankers.

The official at ABN-Amro, which led the deal with Goldman Sachs and Nomura, reported strong overnight buying from Asian central banks and institutions. UK institutional investors also bought strongly into the deal.

The paper tightened to 11.5 basis points over Treasuries after launch. "This is very much a benchmark issue from BNG, which has traditionally gone for deals of about \$200m aimed at the retail investor," said a banker. "BNG is consciously making a strategic move to court a wider investor base in advance of Emu."

THE INTER-AMERICAN DEVELOPMENT BANK also cashed in on buoyant mar-

ket conditions with its first eurodollar issue for almost 12 months. The five-year \$500m bond, which was arranged by J.P. Morgan and Lehman Brothers, was priced at 7 basis points over Treasuries - just 1 basis point below its previous offering spread in 1996. Officials reported good demand from Asian central banks and trust banks and European funds.

"Investors are still emerging from the 'wait-and-see' attitude they adopted in late March," said one official, referring to the 25 basis point rise in US interest rates. "So they built up strong cash positions which they are now running down." The bond was trading at its re-offer price in the secondary markets last night.

KEYBANK NATIONAL ASSOCIATION, the eighth largest bank in the US,

New international bond issues

Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book-runner
IN US DOLLARS							
BNG	1bn	6.375	98.488	Jul 2002	0.25R	+125bp (May 02)	ABN/Goldman/Nomura
CNH Irons	500	9.125	98.591	Jun 2007	0.80R	+275bp (May 02)	J.P. Morgan Securities
Inter-Medical Services (A)	500	8.875	105.839	Jun 2007	0.75		Salomon Brothers Inc
American Express Co	500	6.00	100.00	Jun 2004	0.35R	+60bp (May 02)	Lehman Brothers Inc
Inter-American Dev Bank	500	6.375	98.702	Jun 2004	0.25R	+105bp (May 02)	Lehman Bros/J.P. Morgan
Keybank Natl Association	500	(c)	98.793	Jul 2002	0.30R		J.P. Morgan Securities
SEB Financial	500	6.50	98.788	Jul 2002	0.30R		J.P. Morgan/UBS
Keybank Natl Association	200	6.25	98.828	Jul 2001	0.225R	+85bp (May 02)	Goldman Sachs
Keybank Natl Association	200	6.25	98.743	Jul 2002	0.30R	+115bp (May 02)	Goldman Sachs
Keybank Natl Association	125	8.25	98.898	Jun 2004	0.50R	+215bp (May 02)	Goldman Sachs
IN EURO DOLLARS							
Acros No 3, Class A/B	97.81	(n/a)	98.92	Jun 2007	0.18R		UBS
Acros No 3, Class B	97.81	(n/a)	98.914	Jun 2007	0.18R		UBS
IN SWISS FRANCES							
Province of British Columbia	2bn	5.875	98.808	Jul 2008	0.35R	+180	Paribas
IN SWISS FRANCES							
Deutsche Bank	150	2.00	99.60	Dec 2001	1.75		UBS

Final terms (over non-callable unless stated). Yield spread (over relevant government bond) at launch supplied by lead manager. 2 Floating-rate note. 3 Semi-annual coupon. 4 Fixed re-offer price shown at re-offer. 5 5-year Libor +0.40%. 6 Callable from Jun 02 at par. 7 3-month Libor +0.25%. 8 3-month Libor +0.25%. 9 3-month Libor +0.25%. 10 3-month Libor +0.25%. 11 3-month Libor +0.25%. 12 3-month Libor +0.25%. 13 3-month Libor +0.25%. 14 3-month Libor +0.25%. 15 3-month Libor +0.25%. 16 3-month Libor +0.25%. 17 3-month Libor +0.25%. 18 3-month Libor +0.25%. 19 3-month Libor +0.25%. 20 3-month Libor +0.25%. 21 3-month Libor +0.25%. 22 3-month Libor +0.25%. 23 3-month Libor +0.25%. 24 3-month Libor +0.25%. 25 3-month Libor +0.25%. 26 3-month Libor +0.25%. 27 3-month Libor +0.25%. 28 3-month Libor +0.25%. 29 3-month Libor +0.25%. 30 3-month Libor +0.25%. 31 3-month Libor +0.25%. 32 3-month Libor +0.25%. 33 3-month Libor +0.25%. 34 3-month Libor +0.25%. 35 3-month Libor +0.25%. 36 3-month Libor +0.25%. 37 3-month Libor +0.25%. 38 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CURRENCIES AND MONEY

Amsterdam deal boosts the dollar

MARKETS REPORT

By Simon Kuper

The dollar and sterling rose against the D-Mark yesterday on the market's growing certainty that European monetary union would start on time. In Amsterdam on Monday, European Union countries reached agreement over a budget stability pact and jobs resolutions.

But the dollar's gains were modest, as the market was largely priced in a deal, and because US consumer price data for May emerged weak yesterday. Stronger than expected May industrial production data, however, affected the market.

The dollar rose 0.4 pence against the D-Mark to close in London at DM1.734. It faces strong resistance at around DM1.74-DM1.7420. The pound gained 0.7 pence to DM2.840, after touching its highest level against the German currency since

August 1992. Volumes were low in all major markets. The dollar/yen rate barely moved, with traders waiting for Japanese trade data due out last night.

The lira rose on the growing belief that Italy would join the Euro in the first round - the country has the backing of France's new socialist government. The currency gained 1.27 to close at L978.9 against the D-Mark, having hit a four-month peak earlier in the day.

The Norwegian krone recovered sharply after Norway's central bank said it would intervene in the market to support the currency when necessary. In January, the Norwegian Bank had abandoned its intervention policy. The krone, which early yesterday

hit its lowest level since October at Nkr4.9400 to the D-Mark, rebounded to close at Nkr4.188.

Traders said the Bank of Israel spent about \$500m intervening in the market to prevent the shekel from rising above its bands.

The krone is one of Europe's more volatile currencies, and is strongly affected by the oil price. Its recent slide has been seen as a delayed reaction to the fall in oil prices, and as a response to inflation concerns.

Market players had been drawn to the krone earlier, thinking that the growing economy would prompt a rate rise, but have been disappointed. Norway cut rates instead to 3.50 per cent from rising out of control. Since then many investors have sold, particularly after consumer price data emerged strong this month.

Mr Claudio Demolli, foreign exchange analyst at Merrill Lynch in London, said the markets took yesterday's announcement to mean that Norges Bank would step in if the krone weakened to below Nkr4.20.

Will the new policy succeed in buying the currency? Mr Paul Megyesi, senior currency economist at Deutsche Morgan Grenfell in London, argues that the krone has a

structural problem: Norway's petroleum fund. This fund, set up to allow future generations to benefit from Norway's oil wealth, invests most of the country's trade surplus in foreign assets. This year alone the Norwegian government must sell Nkr500bn of krone for the fund. That naturally depresses the krone in fact, one of the reasons why the fund exists is to prevent Norway's oil wealth from driving up the currency to levels where it would wreck local industry.

The present turmoil should make life interesting for Norges Bank, whose mandate is to maintain a stable krone.

Other currencies

Against the D-Mark (per DM)

Against the D-Mark (per DM)

Against the D-Mark (per DM)

Against the D-Mark (per DM)

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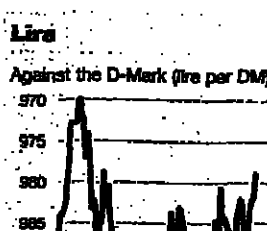
Against the D-Mark (per DM)

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WORLD INTEREST RATES

MONEY RATES

	Overnight	One month	Three months	Six months	One year	Long term	Debt	Repo
Belgium	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	6.00	2.50	-
France	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3.10	-	4.75
Germany	2 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50	2.50	3.00
Italy	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	6.50	-	6.75
Netherlands	2 1/2	3 1/2	3 1/2	3 1/2	3 1/2	6.25	6.75	6.87
Switzerland	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	-	1.00	-
US	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	-	5.00	-
Japan	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	-	5.00	-

LIBOR FT London

	Overnight	One month	Three months	Six months	One year	Long term	Debt	Repo
Belgium	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	6.00	2.50	-
France	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3.10	-	4.75
Germany	2 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50	2.50	3.00
Italy	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	6.50	-	6.75
Netherlands	2 1/2	3 1/2	3 1/2	3 1/2	3 1/2	6.25	6.75	6.87
Switzerland	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	-	1.00	-
US	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	-	5.00	-
Japan	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	-	5.00	-

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Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100
1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	

	Selling Price	Buying Price	Net %	Yield %
Value Express Food Inc				
10/14/94	10.00	9.50	5.00	5.00
11/14/94	10.00	9.50	5.00	5.00
12/14/94	10.00	9.50	5.00	5.00
1/14/95	10.00	9.50	5.00	5.00
2/14/95	10.00	9.50	5.00	5.00
3/14/95	10.00	9.50	5.00	5.00
4/14/95	10.00	9.50	5.00	5.00
5/14/95	10.00	9.50	5.00	5.00
6/14/95	10.00	9.50	5.00	5.00
7/14/95	10.00	9.50	5.00	5.00
8/14/95	10.00	9.50	5.00	5.00
9/14/95	10.00	9.50	5.00	5.00
10/14/95	10.00	9.50	5.00	5.00
11/14/95	10.00	9.50	5.00	5.00
12/14/95	10.00	9.50	5.00	5.00
1/14/96	10.00	9.50	5.00	5.00
2/14/96	10.00	9.50	5.00	5.00
3/14/96	10.00	9.50	5.00	5.00
4/14/96	10.00	9.50	5.00	5.00
5/14/96	10.00	9.50	5.00	5.00
6/14/96	10.00	9.50	5.00	5.00
7/14/96	10.00	9.50	5.00	5.00
8/14/96	10.00	9.50	5.00	5.00
9/14/96	10.00	9.50	5.00	5.00
10/14/96	10.00	9.50	5.00	5.00
11/14/96	10.00	9.50	5.00	5.00
12/14/96	10.00	9.50	5.00	5.00
1/14/97	10.00	9.50	5.00	5.00
2/14/97	10.00	9.50	5.00	5.00
3/14/97	10.00	9.50	5.00	5.00
4/14/97	10.00	9.50	5.00	5.00
5/14/97	10.00	9.50	5.00	5.00
6/14/97	10.00	9.50	5.00	5.00
7/14/97	10.00	9.50	5.00	5.00
8/14/97	10.00	9.50	5.00	5.00
9/14/97	10.00	9.50	5.00	5.00
10/14/97	10.00	9.50	5.00	5.00
11/14/97	10.00	9.50	5.00	5.00
12/14/97	10.00	9.50	5.00	5.00
1/14/98	10.00	9.50	5.00	5.00
2/14/98	10.00	9.50	5.00	5.00
3/14/98	10.00	9.50	5.00	5.00
4/14/98	10.00	9.50	5.00	5.00
5/14/98	10.00	9.50	5.00	5.00
6/14/98	10.00	9.50	5.00	5.00
7/14/98	10.00	9.50	5.00	5.00
8/14/98	10.00	9.50	5.00	5.00
9/14/98	10.00	9.50	5.00	5.00
10/14/98	10.00	9.50	5.00	5.00
11/14/98	10.00	9.50	5.00	5.00
12/14/98	10.00	9.50	5.00	5.00
1/14/99	10.00	9.50	5.00	5.00
2/14/99	10.00	9.50	5.00	5.00
3/14/99	10.00	9.50	5.00	5.00
4/14/99	10.00	9.50	5.00	5.00
5/14/99	10.00	9.50	5.00	5.00
6/14/99	10.00	9.50	5.00	5.00
7/14/99	10.00	9.50	5.00	5.00
8/14/99	10.00	9.50	5.00	5.00
9/14/99	10.00	9.50	5.00	5.00
10/14/99	10.00	9.50	5.00	5.00
11/14/99	10.00	9.50	5.00	5.00
12/14/99	10.00	9.50	5.00	5.00
1/14/00	10.00	9.50	5.00	5.00
2/14/00	10.00	9.50	5.00	5.00

Yazdani Sarung Dynamic Korean Fund	\$7.50	+0.05
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East Fund PkC	\$9.34	-0.02	4 Cdn
East Fund PkC	\$2.82	2.83	4 Cdn
East Fund PkC			4 Cdn
East Fund PkC	\$7.33	-0.08	4 Cdn
East Fund PkC	\$11.24	+0.10	4 Cdn
East Fund PkC	\$3.13	—	4 Cdn
East Fund PkC	\$6.86	-0.01	4 Cdn
East Fund PkC	\$7.67	-0.24	4 Cdn
East Fund PkC	\$8.29	-0.82	4 Cdn
East Fund PkC	\$7.08	—	4 Cdn
East Fund PkC			4 Cdn
East Fund PkC	\$3.32	-0.01	4 Cdn
East Fund PkC	\$5.72	-0.03	4 Cdn
East Fund PkC	\$6.68	—	4 Cdn
East Fund PkC			4 Cdn

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Top Company P/E	17.02		
Industry P/E	17.02		
Company A P/E	17.02		
Company B P/E	17.02		
Company C P/E	17.02		
Company D P/E	17.02		
Company E P/E	17.02		
Company F P/E	17.02		
Company G P/E	17.02		
Company H P/E	17.02		
Company I P/E	17.02		
Company J P/E	17.02		
Company K P/E	17.02		
Company L P/E	17.02		
Company M P/E	17.02		
Company N P/E	17.02		
Company O P/E	17.02		
Company P P/E	17.02		
Company Q P/E	17.02		
Company R P/E	17.02		
Company S P/E	17.02		
Company T P/E	17.02		
Company U P/E	17.02		
Company V P/E	17.02		
Company W P/E	17.02		
Company X P/E	17.02		
Company Y P/E	17.02		
Company Z P/E	17.02		
Company AA P/E	17.02		
Company AB P/E	17.02		
Company AC P/E	17.02		
Company AD P/E	17.02		
Company AE P/E	17.02		
Company AF P/E	17.02		
Company AG P/E	17.02		
Company AH P/E	17.02		
Company AI P/E	17.02		
Company AJ P/E	17.02		
Company AK P/E	17.02		
Company AL P/E	17.02		
Company AM P/E	17.02		
Company AN P/E	17.02		
Company AO P/E	17.02		
Company AP P/E	17.02		
Company AQ P/E	17.02		
Company AR P/E	17.02		
Company AS P/E	17.02		
Company AT P/E	17.02		
Company AU P/E	17.02		
Company AV P/E	17.02		
Company AW P/E	17.02		
Company AX P/E	17.02		
Company AY P/E	17.02		
Company AZ P/E	17.02		
Company BA P/E	17.02		
Company BB P/E	17.02		
Company BC P/E	17.02		
Company BD P/E	17.02		
Company BE P/E	17.02		
Company BF P/E	17.02		
Company BG P/E	17.02		
Company BH P/E	17.02		
Company BI P/E	17.02		
Company BJ P/E	17.02		
Company BK P/E	17.02		
Company BL P/E	17.02		
Company BM P/E	17.02		
Company BN P/E	17.02		
Company BO P/E	17.02		
Company BP P/E	17.02		
Company BQ P/E	17.02		
Company BR P/E	17.02		
Company BS P/E	17.02		
Company BT P/E	17.02		
Company BU P/E	17.02		
Company BV P/E	17.02		
Company BW P/E	17.02		
Company BX P/E	17.02		
Company BY P/E	17.02		
Company BZ P/E	17.02		
Company CA P/E	17.02		
Company CB P/E	17.02		
Company CC P/E	17.02		
Company CD P/E	17.02		
Company CE P/E	17.02		
Company CF P/E	17.02		
Company CG P/E	17.02		
Company CH P/E	17.02		
Company CI P/E	17.02		

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Country	Year	Value	Unit
USA	1992	12,729	1000
USA	1993	12,729	1000
USA	1994	12,729	1000
USA	1995	12,729	1000
USA	1996	12,729	1000
USA	1997	12,729	1000
USA	1998	12,729	1000
USA	1999	12,729	1000
USA	2000	12,729	1000
USA	2001	12,729	1000
USA	2002	12,729	1000
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USA	2081	12,729	1000
USA	2082	12,729	1000
USA	2083	12,729	1000
USA	2084	12,729	1000
USA	2085	12,729	1000
USA	2086	12,729	1000
USA	2087	12,729	1000
USA	2088	12,729	1000
USA	2089	12,729	1000
USA	2090	12,729	1

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Selling Price	Buy Price	% Diff	Yield %
Managers (Int) Ltd			
Holder Name			
Investment Ltd			
Int	102.30	105.47	+0.02 5.20
Int	131.08	132.25	+0.11 5.20
Int	107.65	108.76	+0.10 5.17
Int	171.17	174.00	+0.22 0.86
Int	107.65	108.65	+0.09 0.93
Int	175.88	180.01	+1.00 0.03
Int	107.65	108.65	+0.09 0.93
Int	175.88	176.25	+0.37 0.93
Int	107.65	107.14	-0.02 1.12
Int	175.88	177.45	+0.12 7.00
Int	107.65	108.90	+0.12 7.19
Standard Fund Managers (Share) Ltd			
Selling Price	Buy Price	% Diff	Yield %
Standard Fund Managers Capital Ltd			

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May 20	11/13/74 105		
	(11/13/74-198)		
	8204 73		
Payroll Managers Fund			
	Particulars		
	57-41	18-24	
	81-64	17-68	
	81-73	12-24	
	81-24	1-06	
(Managerial Services Fund)			
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
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	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
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	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
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	81-73	12-24	0-00
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	57-72	25-13	65-049
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	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
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	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
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	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
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	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
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	81-64	17-68	0-00
	81-73	12-24	0-00
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	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00
	81-73	12-24	0-00
	81-24	1-06	0-00
	57-72	25-13	65-049
	81-64	17-68	0-00

[illegible]

	1999	2000	2001
International Limited			
Int Income Funds	112,740	13,440	15
Int	17,280	15,280	12
Int Funds	95,460	3,860	13
Int	28,220	2,720	13
Management (Agency) Ltd			
Man	117	187	-0.5
Man	902.9	104.3	-1.8
Man	902.9	45.62	0.04
Investment (Agency) Ltd			
Inv	242.78	22.81	-
Inv	545.05	44.13	-
Inv	52.3	44.13	-0.32
Inv	224.36	25.38	-
Inv	224.36	25.38	-
Global Asset Management			
Global	170,450	1,007	6.30
Global	103,543	4,087	5.51
Equities Ltd			
Equi	74,252	4,450	-
Equi	74,252	4,450	-0.88
(Agency) Ltd			

[illegible][illegible]

14th (Hampshire) Army Air Corps				
Year	1946	1947	1948	1949
1946	750.37	744.63	-	1,249
1947	738.37	734.74	-	-
1948	731.52	727.89	-	-
1949	719.79	716.16	10,530.4	4,657.5
1950	708.06	704.43	11,020.7	4,668.8
General Motors (Canada) Ltd				
1946	\$11,500	\$11,117	-	\$4,225
1947	\$10,500	\$10,118	-	\$3,750
Coca-Cola Ltd				
1946	\$76.7	\$75.0	-	\$3.3
1947	\$68.2	\$66.5	-	\$3.1
Imperial Chemical Industries Ltd				
1946	\$107.51	\$103.51	-	-
Imperial Chemical Industries Ltd				
1946	\$107.51	\$103.51	-	-
1947	\$107.51	\$103.51	-	-
1948	\$107.51	\$103.51	-	-
1949	\$107.51	\$103.51	-	-
1950	\$107.51	\$103.51	-	-
Imperial Chemical Industries Ltd				
1946	\$107.51	\$103.51	-	-
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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1947	\$107.51	\$103.51	-	-
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Imperial Chemical Industries Ltd				
1946	\$107.51	\$103.51	-	-
1947	\$107.51	\$103.51	-	-
1948	\$107.51	\$103.51	-	-
1949	\$107.51	\$103.51	-	-
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Imperial Chemical Industries Ltd				
1946	\$107.51	\$103.51	-	-
1947	\$107.51	\$103.51	-	-
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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Imperial Chemical Industries Ltd				
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1950	\$107.51	\$103.51	-	-
Imperial Chemical Industries Ltd				
1946	\$107.51	\$103.51	-	-
1947	\$107.51	\$103.51	-	-
1948	\$107.51	\$103.51	-	-

7041	352 43464025
380.17	70.77
380.20	88.83
380.22	63.70
380.70	99.16
380.73	53.88
380.75	64.23
380.88	81.54
381.70	103.56
381.72	113.47
382.88	70.89
377.88	75.59
381.74	122.62
High Landerburg 53 (4)	
Low Landerburg 10 252 222001	
34.223	03
35.407	03
36.597	03
37.786	03
38.971	03
40.156	03
41.342	03
42.527	3.81
43.716	6.08
44.904	8.35
04 (4)	
100.1, 100.1, 100	00 252 25554 941
45.893	-0.14
47.077	-0.17

BT101A.5C	-4.43	---
0054.00	+0.23	---
F11157.00	-1.23	---
10024.54	+0.03	---
10024.55	-0.77	---
1.141.00	-15	---
F12204	-43	---
F011810.0	-13	---
F11.07	+0.07	---
531.10	---	---

Quoted Net "A" above



STATE STREET
Institutional Investors

97	Use Pending
98	Dragon King
99	1997
00	Dreadnaught
01	At Mountain Cove
02	1997 May 30
03	Harry & Co
04	Harry Esposito
05	Italy Over 4-1/2
06	6.97
07	6.97
08	6.97
09	6.97
10	6.97
11	6.97
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46	6.97
47	6.97
48	6.97
49	6.97
50	6.97
51	6.97
52	6.97
53	6.97
54	6.97
55	6.97
56	6.97
57	6.97
58	6.97
59	6.97
60	

STOCK

- Gordon House
 - Gordon House
 - HSBC UK Eq
 - M&P
 - Sharegate
 - HSBC UK Eq
 - M&P
 - Sharegate

FT MANAGED FUNDS SERVICE

Year	Number	Gender	Age	Height	Weight	Sitting	Standing	Δ H	Yr
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July 10, 1962

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (444 171) 673 4378 for more details.

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LONDON STOCK EXCHANGE

Tax credit nervousness rattles UK equities

MARKET REPORT

By Peter John

There was an element of fiddling while Rome burned in the London market yesterday.

As the London season opened, many City desks were deserted for the greener and more speculative arena of Ascot.

At the same time, those who were left had time to consider the implications of a possible abolition of the 20 per cent tax credit on dividend payments.

And some stark press comment prompted strategists to suggest that an 8 per cent correction would not be a melodramatic scenario.

The message took a while to filter through - perhaps because the market was also concentrating on derivatives expiries and anticipating economic data from the US.

But when it did, it turned an early gain of 13.0 on the FTSE 100 index into a fall of 62.9 to 4,682.2 on turnover of 840m shares at 9pm.

The FTSE 250 and SmallCap indices, which are less attractive to the pension funds and charities currently benefitting from tax credits, were less affected. They fell 19.1 to 4,538.0 and 4.0 to 2,279.8 respectively.

Early on, there was considerable intra-market jockeying

ahead of the mid-morning expiry of Footsie options as well as the individual stock options.

Basket trading and arbitrage ensured that Footsie was showing a comfortable gain. Then it began to lose ground with gathering force.

There was some caution about the latest consumer price index figure from the US. In fact the headline and core readings came in below the consensus forecasts as did the figure for May housing starts.

And while the US long bond was lower for a while and restraining UK government bond prices there was no obvious reason for the slippage apart from

profit-taking. However, the concern over advance corporation tax credits gnawed at the market's confidence.

Marketmakers were actively targeting high-yielding stocks yesterday with particular emphasis on utilities, many of which are still under the shadow of regulatory pressure.

Mr Adam Cole of HSBC James Capel said: "The reaction on Monday was very, very modest. If we were really taking it [the ACT change] on board it would represent 300 or 400 Footsie points."

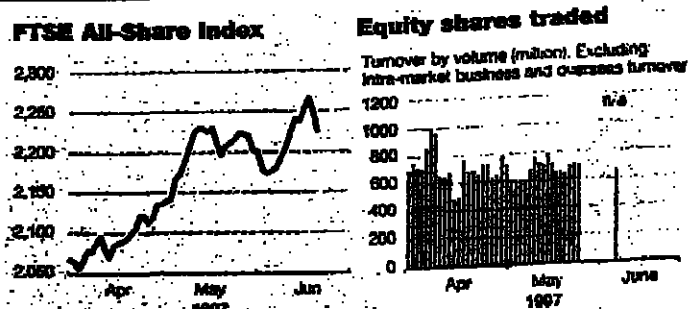
And Mr Peter Warburton of Robert Fleming Securities said: "Tax exempt shareholders... stand to lose a considerable

amount of money. Pension funds alone could lose 54m per annum of cash flow. Theoretically, the FTSE All-Share index would drop by around 10-12 per cent. However, the actual effect on UK equities may not be so severe."

Footsie has already hit many strategists' end of year targets. Those targets factored in some tightening of tax credits but not the total abolition.

While forecasts will be left intact until the Budget on July 2 they could be scaled back afterwards.

On the other hand, many of the big funds still have huge cash positions and the pressure to buy on the dips is expected to remain.



Indices and ratios		Equity shares traded	
FTSE 100	4682.2	FT 30	3024.4
FTSE 250	4538.0	FTSE Non-Fin p/e	19.21
FTSE 350	2268.7	FTSE 100 Div. yield	4.76
FTSE All-Share	2225.32	10 yr Gilt yield	7.06
FTSE All-Share yield	3.50	Long gilts/yield ratio	2.05

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LFFE) £25 per full index point		FTSE 250 INDEX FUTURES (LFFE) £10 per full index point	
Jun	4755.0	Jun	4554.0
Jul	4757.0	Jul	4554.0
Aug	4757.0	Aug	4554.0
Sep	4757.0	Sep	4554.0
Oct	4757.0	Oct	4554.0
Nov	4757.0	Nov	4554.0
Dec	4757.0	Dec	4554.0

LONDON RECENT ISSUES: EQUITIES

Issue	Amount	Price	Yield	Div.	Gr.	P/E
BP	100	100	100	100	100	100
BT	100	100	100	100	100	100
BT	100	100	100	100	100	100
BT	100	100	100	100	100	100

RIGHTS OFFERS

Issue	Amount	Price	Yield	Div.	Gr.	P/E
BP	100	100	100	100	100	100
BT	100	100	100	100	100	100
BT	100	100	100	100	100	100
BT	100	100	100	100	100	100

FTSE GOLD MINES INDEX

Index	Value	Change	High	Low
FTSE Gold Mines	100	100	100	100
FTSE Gold Mines	100	100	100	100
FTSE Gold Mines	100	100	100	100
FTSE Gold Mines	100	100	100	100

FTSE Actuaries Share Indices

Index	Value	Change	High	Low
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100

FTSE Actuaries Industry Sectors

Index	Value	Change	High	Low
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100

Hourly movements

Index	Value	Change	High	Low
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100

Further information is available on

Index	Value	Change	High	Low
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100

Broker boost at GMet

By Joel Kibazo, Peter John and Martin Brice

Dealers and analysts were busy speculating about the next move in the current Guinness/Grand Metropolitan merger talks.

LVMH, the French luxury goods group, said after the market closed it bought 4.75m ordinary shares in GrandMet at between 56p and 58p.

LVMH, which is opposed to the merger and last week submitted a request to the International Chamber of Commerce for arbitration, has 0.29 per cent of GrandMet. But it said it had "no intention" of making an offer for the UK drinks and food giant. LVMH already owns around 14.2 per cent in Guinness and has a material trading arrangement with it.

News of the share purchase followed sharp gains in both UK companies. The gains were prompted by a strong recommendation from US investment bank Goldman Sachs. GrandMet rose 15p to 581p, making it the best performing stock in the FTSE 100. Guinness appreciated 8p to 588p.

Both stocks have been added to the bank's recommended list having previously been rated "market outperformers".

Goldman set a 682p near

term share price target for the two. Analysts at the bank said: "We believe the merger of GrandMet and Guinness, were it to go ahead, would result in a company whose earnings growth is forecast to accelerate to 13 per cent in 1999 and 2000."

Midland Independent Newspapers outperformed the market after it said it was in talks with Mirror Group that might lead to an offer being made for the company. Shares in the group have risen strongly in recent sessions as speculation about a predator did the rounds in the market. Confirmation of the talks sent the shares sharply ahead, past their previous peak of 177p. They touched a session peak of 189p before coming off the top to close up 30 at 179p.

Pamure Gordon is predicting a take-out price for Midland of 200p a share. He said: "This is very positive for the UK drinks and food giant. LVMH already owns around 14.2 per cent in Guinness and has a material trading arrangement with it."

With the market appreciating the move by Mirror Group, the company's shares held up relatively well against the sharp market decline. They closed just 3p lighter at 205p.

ICI came in for a sharp reappraisal following a strong outperformance against the overall market since early May.

Over the past six weeks the stock had shot up from 69p to 89p with US investors, who hold about 10 per

cent of the stock, buying steadily.

That New York appetite appeared to be fading slightly yesterday. Some investors were using the excuse of fertiliser price reductions, even though those cuts are expected to make no more than a 51p dent in full-year profits. Also, the company was on a 20 per cent yield premium to the market and the comparatively high yield may worry some funds. ICI is one of the key stocks held by big pension funds, which risk losing their 20 per cent tax credits. The shares fell 27 to 82p.

Siebe provided one of the very few specks of blue on the red day. Shares rose 18p to 988p, making it the second biggest Footsie riser. The rise stemmed from traders positioning themselves ahead of bullish comments anti-

dated from an analysts' visit by the house broker Dresdner Kleinwort Benson.

Still in engineering, Lehman Brothers began coverage of IMI and deemed it an "outperformer" stock. The shares saw brisk trade of 3.5m but closed unchanged at 374p. Mr Charles Armitage at the broker believes the stock, currently trading at a multiple of 8.4 times this year's earnings, should be on 10 times, suggesting a target price of 440p for 1997 and 500p for next year.

Elsewhere in the sector, Wellman saw busy trade of 7.4m shares. It rose 5p to 29p after a positive trading statement and the announcement of a new finance director.

The shares have languished since the company issued a profit warning in October. Among retail stocks, Burton Group, which heard last week it would lose its place

in the premier FTSE 100 listings, remained friendless and gave up 6p to 125p.

News of Mr Sam Chisholm's intention to step down from the chief executive's role at BSKYB sent the shares down 2 1/2 to 66p. One trader was reported as saying: "We like this is never welcome for a company unless he was doing a bad job and Chisholm wasn't doing a bad job."

Retail banking stocks, which have been the toast of the market recently, fell sharply, helping drag the market as a whole lower.

Abbey National, which confirmed on Monday it was in talks about acquiring Cater Allen, was the worst performer in the sector. The shares surrendered 37p to 81p. Lloyds TSB fell 20p to 606p. HSBC 45 to 23.45p and the Halifax 12p to 78p.

First Leisure was marked up 16p to 350p in tiny volume as a story went the rounds that Rank was set to bid for it but few took the yarn seriously. Rank fell 7p to 379p in volume of 5.9m.

First Leisure's 8p rise on Monday was said to come late in the day after market-makers at a UK bank took the story seriously. However, one analyst pointed out that Rank seeks a 15 per cent pre-tax return in the second year of an investment, and it was unlikely to get that from First Leisure.

One of the briskest trades in the Footsie was in BTR shares, with 20m dealt as the stock advanced 2p to 19p, bouncing off low levels not seen for several years. The rise powered the sector to become one of the few that advanced yesterday. The shares were at 180p earlier this month and traders said they were due a bounce. Sentiment was helped by a buy note said to come from Goldman Sachs.

Carpetright was the big-

gest riser in the FTSE 250. It advanced 37p to 478p on the back of comments on the company's profit margins by chairman and chief executive Lord Harris of Peckham.

His positive statements on discounting and the increase, in like-for-like sales growth prompted investors to take an interest in MEXI Furniture, which saw 8.5m traded and rose 7p to 142p with further support from a NatWest Securities recommendation.

RMC was marked up 7p to 210.05p after market-makers were caught in a squeeze.

Traders also suggested the company might benefit from any weakening of the pound. Hazlewood Foods managed to beat the gloom to rise 5p to 116p.

TRADING VOLUME

Index	Value	Change	High	Low
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100

Major Stocks Yesterday

Index	Value	Change	High	Low
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100
FTSE Actuaries	100	100	100	100

FTSE Actuaries Share Indices

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John, 10/15/97



NASDAQ NATIONAL MARKET

4 per close June 17

[illegible]

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Company	Bid price	Change	Volume	High	Low	Company	Bid price	Change	Volume	High	Low
		on day						on day			
AdiCard	US\$4.875	0	8,25	4.35		Esprit Telecom ADS	US\$0		0	12.55	5.35
Aether Systems	US\$11.375	5	3752	11.25	9.5	US\$0			0	12.75	5.35
AT&T	US\$15	0	46	18	14	Morgan Internet	US\$11.5	-0.25	48838	12.75	10.5
D. Salomon's ADS	US\$24.75	-0.75	0	25.5	15.65	US\$10	0		0	11.75	8.25
						US\$4.125	0		0	6.15	3.85

Prices for 17/05/97. Please note that real prices are now used in calculate highs and lows

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